EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

FT No. 31,196
© THE FINANCIAL TIMES LIMITED 1990

Wednesday July 11 1990

Φ D 8523A

THE GATT
Sour taste in EC food makers' mouths
Page 3

World News

Nicaraguan troops move to confront strikers

The future of Nicaragua's economic stabilisation programme hung in the balance as President Violeta Barrios de Chamorro ordered troops onto the streets to confront students and workers who had set up barricades and seized workplaces in support of a general strike.

The strike was called in support of wage demands to combat steep price rises, an essential component of the Government's economic adjustment policy. Page 16

Albanian refugees
Diplomats were cautiously optimistic that 6,000 refugees camped in appalling conditions in several embassies in Albania's capital, Tirana, would be allowed to leave the country this week. Page 16

Bulgaria parliament
Bulgaria's first freely elected parliament for 45 years opened despite attempts by nationalist protesters to prevent ethnic Turkish deputies from reaching the building. Page 2

E German warning
Rainer Eppelmann, East German Defence Minister, warned of growing aggression against Soviet troops stationed in his country and pointed to the importance of having an interim agreement on their presence after German unification. Page 2

US warns on Kenya
US warned travellers that Kenya was unsafe to visit, despite restoration of law and order throughout most of the country following four days of anti-government rioting which has killed at least nine people. Page 4

Amnesty accuses
Amnesty International said in a report that thousands of people around the world were tortured and murdered by governments trying to control unrest in 1989. Page 4

Cubans seek asylum
Two more Cubans seeking political asylum have entered the Czechoslovak embassy in Havana, joining five Cuban dissidents already sheltering there, an embassy spokesman said. Page 6

Arafat attacks US
Palestine Liberation Organisation chairman Yassir Arafat accused the US of trying to kill peace efforts in the Middle East in support of what he said were Israel's war designs.

Moscow accused
West Germany believes the Soviet Union has stored large quantities of chemical weapons in East Germany despite denials from East Berlin and Moscow, Bonn Defence Ministry sources said.

Uganda negotiations
Rebels of the Uganda Patriotic Democratic Movement (UPDM) have opened negotiations with the government of President Yoweri Museveni to end their four-year rebellion, government officials said.

Solidarity challenged
Angry farmers belonging to Rural Solidarity prepared to defy Solidarity Prime Minister Tadeusz Mazowiecki and block roads across Poland in a showdown over farm policies.

Cocom reform urged
Controls on technology exports to Warsaw Pact nations must be reformed immediately in line with changing political reality in eastern Europe, US and Japanese business leaders said at the 27th annual Japan-US business conference in Osaka, Japan. Page 3

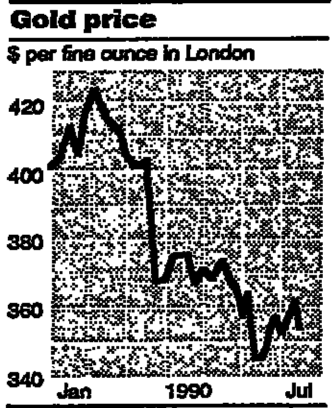
Soccer ban lifted
UEFA, the European Football Union, said it had lifted unconditionally a five-year ban on English soccer clubs playing in European competitions.

Business Summary

Mobil agrees to clean up oil seepage in New York

MOBIL, the US oil company, has agreed to embark upon a multi-million dollar clean-up of up to 14.5m gallons of oil that have been seeping into the ground beneath Brooklyn, New York. Page 16

MARKETS: Gold fell sharply as Middle East selling again hit the market. It closed at $354 an ounce, down $4.25. Page 26; Tokyo – the Nikkei average was down 385.43 to finish



at the day's low of 32,152.43. Frankfurt – The FAZ index fell 9.05 to 807.18 at midsession and the DAX dipped below 1,900, recovering to close 14.23 lower at 1,909.63. Back Page Section II

ASKO, West German food retailer, sold its 13.1 per cent stake in Ahold, the Dutch groceries group, to a consortium of banks. Page 17

SIR ALAN Walters, former economic adviser to Mrs Margaret Thatcher, British prime minister, is launching a stinging attack on UK plans to take up full membership of the European Monetary System. Page 16

TUFFIER et Associés, French stockbroking firm, is to cut its workforce by a third, laying off 100 people in a bid to cope with declining trading volume. Page 17

EMILE Bridel, patriarch of the French camembert business, is to sell his family dairy company to his arch rival, Michel Besnier, in a deal estimated to be worth $36m. Page 17

TEXAS Instruments, second largest US semiconductor producer, has filed patent infringement suits against five other US chip makers in its latest bid to increase royalty income from its extensive intellectual property rights. Page 20

JAPAN's Finance Ministry will not make major changes to spending plans, despite public investment commitments made in the Structural Impediments Initiative (SII). Page 3

PHILIP Morris of the US is paying Mr Klaus Jacobs $2.26bn for Colima, the holding company through which he controls Jacobs Suchard, the Swiss chocolate and coffee group. Page 18

TELEKOM, Malaysia's telecommunications monopoly, is expected to offer 25 per cent of its equity to the public in order to gain a stock market listing by December. Page 19

TAIWAN has drawn up measures to reduce its trade deficit with Japan, including restricting Japanese bids for government procurement contracts and stepping up anti-dumping investigations. Page 3

DIGITAL Equipment, faced with sluggish sales and intensifying competition, has unveiled a new range of multi-purpose mid-range computers to defend its stronghold in the minicomputer market. Page 20

NOBEL Industries, Sweden's biggest chemical company, has kept up its recent buying spree with the $100m purchase of the paper-chemicals business of UK-based Albright & Wilson. Page 18

Soviet leader rounds on critics with angry defence of reform programme

Gorbachev re-elected Party chief

By Quentin Peel and Leyla Boulton in Moscow

PRESIDENT Mikhail Gorbachev was overwhelmingly re-elected leader of the Soviet Communist Party yesterday, after he promised to "defend the socialist choice" and never to join forces with "those who want to push the country back to capitalism."

He won by the huge margin of 3,411 votes, to just 501 for his only rival, miners' strike leader Mr Teimuraz Avaliani. However, under the voting system in which every delegate votes for or against each candidate, as many as 1,116 delegates at the congress dared to vote against Mr Gorbachev.

His election came in spite of a torrent of conservative criticism at the party congress, frequent attacks on the party leadership for failing to provide clear ideological direction, and doubts about his holding both the party leadership and the state presidency simultaneously.

Mr Gorbachev turned on his critics yesterday in his angriest and most emotional defence of his whole reform programme, challenging other members of the leadership to quit if they disagreed with his policies.

On foreign policy in particular he rounded on the Soviet military establishment. "Did we act wisely in deciding against intervention in developments under way in Eastern Europe?" he demanded. "Well, do you want tanks again? Shall we teach them again how to live?"

In a clear instruction to top generals and diplomats to put up with state policy or quit, he said: "If they are decent people and they disagree with government policy, they must resign."

In the end he was elected because of the clear absence of any alternative candidate capable of uniting the party. He now faces the challenge of ensuring that the newly-created post of deputy general secretary will be filled by an ally of his reforms.

Nine alternative candidates for general secretary were proposed from the floor, including Mr Eduard Shevardnadze, the Foreign Minister, and Mr Alexander Yakovlev, the leading reformer in the Politburo. None was a noted conservative, and all except Mr Avaliani withdrew rather than split the vote.

Mr Anatoly Sobchak, the radical new mayor of Leningrad, said last night that he had voted against Mr Gorbachev because electing him "means that the President cannot use his full presidential powers because he is tied hand and foot to the party hierarchy."

Mr Yuri Boldyrev, a leading radical committed to splitting the ruling party, saw conflicting consequences from the outcome. "On the one hand it will mean that perestroika and reforms will continue," he said. "Gorbachev will keep the party under control. On the other hand it means that this party will keep the President under control."

In his final pre-election speech, Mr Gorbachev sought to present himself as a true defender of socialist orthodoxy, despite the effect of his reforms and the growing unpopularity of the Communist Party. "I defend the socialist choice. I will never be linked to those who want to push the country back to capitalism," he said

Then he hedged his bets with the reassurance: "This does not mean that I will put a concrete wall between our country and elsewhere. What is useful in other nations we will take."

In his earlier address to the conference yesterday, he rounded on delegates who had attacked the changes in Soviet society.

"Has our entire history not shown, comrades, the futility of attempts to get out of the plight . . . by patching up the command-and-administrative system? If we continue to act in this way then, I shall be frank, we will bankrupt the country."

Gorbachev re-election, Page 2; Editorial comment, Page 14

UP TO 500,000 Soviet coal miners are set to defy pleas by President Gorbachev and the Party congress and hold a one-day strike today. The token stoppage comes exactly one year after the outbreak of last summer's mass miners' strike, which paralysed the industry and caused major problems in both electricity and steel production. The miners are demanding the resignation of the government of Prime Minister Nikolai Ryzhkov for its failure to fulfil promises it made in last year's strike settlement, and calling for curbs on the power of the ruling Communist Party and official trade unions. Page 2

Summit edges closer to farm trade accord

By Peter Riddell and Peter Norman in Houston

A COMPROMISE formula to resolve the controversial issue of agricultural trade subsidies was emerging yesterday at the annual economic summit of industrialised countries in Houston as the leaders issued a ringing political declaration celebrating political changes around the world.

The declaration hailed the success of democracy and free markets in eastern Europe and elsewhere, and welcomed the Soviet intention to reform its political and economic system.

It also stressed the need for Cuba to "take steps to join the democratic trend in the rest of Latin America" and hinted at a possible relaxation in the present limits on World Bank loans to China.

The harmonious political declaration reflected a willingness on the part of the summit participants – the US, Japan, West Germany, Britain, France, Italy, Canada and the European Commission – to reach compromises while acknowledging differences of interest.

In particular, talks between President George Bush and Chancellor Helmut Kohl gave the first sign of a possible compromise over the wording of the communique on the vexed issue of reducing agricultural subsidies.

The Houston summit, like last week's Nato meeting in London, has shown that the good working relationship between the US and West German leaders has become crucial to solving international problems.

The agricultural issue has been the most divisive at the summit since it is the key to ending the current stalemate in the Uruguay Round of multilateral trade talks.

The start of the summit was marked by sharp exchanges between US and EC trade officials about apportioning blame for the deadlock. However, undeterred by this barrage, the leaders and their advisers had been working on a formula intended to give fresh guidance to trade negotiators.

The final communique today is expected to draw on a compromise plan put forward 10 days ago by Mr Aart De Zeeuw, the Dutch chairman of the agriculture negotiating panel of the Uruguay Round.

This would meet the US desire for issues such as export subsidies to be addressed specifically, while also being acceptable to West Germany and Britain in particular.

Mr James Baker, US Secretary of State, said several suggestions had been put forward at yesterday morning's plenary session of the summit and work was continuing on the wording. The final outcome was still unclear last night.

A dispute has emerged between the US and the EC about how to conduct the study into the needs and problems of the Soviet economy. The US strongly supports a proposed study led by the International Monetary Fund and the World Bank, while many in the EC believe that its already announced mission to Moscow should be the sole one.

The political declaration focuses on changes throughout the world. It adopts cautious language in relation to China, agreeing to maintain existing sanctions, though keeping them under review to facilitate a response to any positive developments in China.

In particular, the declaration says that "in addition to existing lending to meet basic human needs, we will explore whether there are other World Bank loans that would contribute to reform of the Chinese economy, especially loans that would address environmental concern."

The World Bank has resumed lending to China, but solely for humanitarian purposes such as earthquake relief. Japan intends to resume a $5.6bn bilateral loan to China which was frozen last year.

The political declaration states the willingness of the summit countries to provide practical help to nations that choose freedom. It lists four points: assistance in the drafting of laws, including bills of rights and civil, criminal, and economic framework laws; advice in the fostering of independent media; the establishment of training programmes in government, management and technical fields; and developing and expanding people-to-people contacts and exchange programmes to help diffuse understanding and knowledge.

Background, Page 6

President George Bush (left) signals his approval of West Germany's football World Cup win as he greets Chancellor Helmut Kohl in Houston

US music publishers attempt to block Dat recorders

By Michael Skapinker in London

REPRESENTATIVES of America's songwriters and music publishers have asked a federal court in Manhattan to prohibit the Sony Corporation of Japan from selling digital audio tape (Dat) recorders and blank cassettes in the US.

The plaintiffs say that by introducing Dat recorders and cassettes into the US, Sony is "inaugurating a new era in unauthorised home taping of copyrighted musical compositions." Dat recordings provide a far better level of reproduction than traditional audio tapes because the music is recorded digitally.

The class action has been brought by Mr Sammy Cahn, a songwriter whose hits include "It's Magic" and "Love and Marriage," and four music publishers. The music publishers, Jac Music, Fort Knox Music, Trio Music and Peer International, hold copyrights over songs which include "Raindrops Keep Fallin' On My Head" and "Walk on By."

They have asked the court to declare that unauthorised taping on Dat recorders violates the federal copyright statute and that Sony is contributorily liable through its sale of the recorders and the cassettes. They have also asked the court to stop Sony from selling Dat equipment. They have made it clear, however, that they are prepared to reach a settlement which would provide songwriters and copyright holders with compensation for the losses they suffer through illegal taping.

The plaintiffs believe that Sony began selling Dat recorders in the US in the past few weeks. They say that a recent survey shows that nearly every person who intends to buy a Dat recorder will use it to tape pre-recorded music. They say that this will depress sales of compact discs, cassettes and records. . .

Consumer electronics companies and the recording industry reached an agreement last year which provided for compact discs to include a digital code which would prevent the copying of recordings from one Dat tape to another. The code would permit copying from CD to a Dat tape.

Mr Michael Oberman, an attorney for the plaintiffs, says that the agreement does not do enough to protect his clients. Assuming the spoiling code works, there is still no limit to

Continued on Page 16

Lyonnaise Des Eaux and Dumez to consider merger proposal

By William Dawkins in Paris

LYONNAISE DES EAUX, France's second largest water distribution group and Dumez, the country's second largest construction company, are considering a merger which would create an industrial group with annual sales of around FFr50bn ($9bn).

Their respective boards will study a merger plan this morning, they said in a joint communique, issued to explain why they asked for their shares to be suspended on Monday.

A merger would be one of the largest in France. The new group would have just under half the turnover of Lyonnaise des Eaux's main rival, Générale des Eaux, which diversified into construction two years ago.

Only scant details were available last night, but the most obvious benefits appeared to be for Dumez rather than the water company, said analysts. A merger would give Dumez, which reported net group profits of FFr566m on sales of FFr28.6bn last year, a powerful partner at a time when growth in the construction market is slackening.

Lyonnaise des Eaux has excellent connections with French local authority public works departments, which could help Dumez obtain more domestic contracts. For the water company, which recorded net profits of FFr726m on a turnover of FFr21.6bn last year, this is a chance to buy into a related business with a much lower stock market rating than its own.

"The methods of management of both companies are very similar. It's basically a question of managing large amounts of unskilled, often temporary, labour. There are clear areas of overlap," said Mr Jo Hall, head of international sales for Bacot Allain, the Paris securities group owned by SG Warburg of the UK.

A merger could also help Dumez offer third world construction clients a fuller service, by adding water distribution to building, said Mr Hall. A similar aim lay behind the merger in 1988 of the construction activities of Saint-Gobain, the glassmaker, with those of Générale des Eaux.

One possible attraction for Lyonnaise des Eaux is that the arrival of Dumez, with a lower stock market rating than the water company, could help its earnings per share. Lyonnaise des Eaux's shares were suspended at a price earnings ratio of nearly 23 on Monday, as against a p/e of 11 for Dumez.

Mr Jean-Paul Parayre, the former Peugeot chairman who heads Dumez, has been seeking diversifications since the overseas construction market started to fall off five years ago.

Three years ago, it took a 70 per cent stake in Canada-based United Westburne Industries, North America's largest distributor of electrical and building supplies, which last year contributed slightly over half of Dumez' sales.

Since then, Dumez has added further to its distribution activities with the purchase in January of 22.5 per cent of Groupe

Continued on Page 16
Lex, Page 16

CONTENTS

Norway: Self-rule rising in land of the midnight sun 2
China: Domestic debt squeeze deepens the economic crisis 4
Cable Television: Americans go prospecting for UK gold 8
Editorial Comment: Post-war reconstruction; Small business needs a hand 14
Privatising eastern Europe: Making it safe for capitalism 15
Orange Growing: Brazilians thrive as Florida feels the chill 26
Britain's Water Industry: Survey ....Section III

Europe	2	Britain	7-9	Financial Futures	34	Observer	17
Companies	20	Companies	23-25	FT Law Report	15	Stock Markets	27-32
America	6	Arts Guide + Reviews	13	Gold	26	-London	27-29
Companies	18	Commodities	26	Intl. Capital Markets	21,22	Technology	12
International	4	Crossword	34	Letters	15	Unit Trusts	30-33
Companies	19	Currencies & money	34	Lex	16	World Index	28
World Trade	3	Editorial Comment	14	Management	11		

A chorus of criticism splits the French Socialists

The declining popularity of President Mitterrand, left, is forcing France's Socialists to search for possible reasons. Some blame party in-fighting, but militants are seizing the pretext to lay the blame elsewhere
Page 15

MARKETS

STERLING
New York close
$1.8125 (1.809)
London:
$1.8155 (1.8055)
DM2.99 (2.9775)
FFr10.035 (9.9925)
SFr2.5350 (2.5175)
Y270.25 (272.75)
£ Index 94.1 (93.9)

GOLD
New York: Comex Aug
$357.1 (359.9)
London:
$354 (358.25)

N SEA OIL (Argus)
Brent 15-day
$16.10 (15.6)

Chief price changes yesterday: Page 17

DOLLAR
New York close
DM1.6470 (1.653)
FFr5.5295 (5.5465)
SFr1.3955 (1.3965)
Y148.60 (151.145)
London:
DM1.6470 (1.6495)
FFr5.5275 (5.535)
SFr1.3960 (1.395)
Y148.85 (151.05)
$ Index 65.5 (65.9)
Tokyo close Y149.60

US closing rates
Fed Funds $8\frac{3}{16}$% ($8\frac{1}{4}$)
3-mo Treasury Bills:
yield: 8.036% (8.05)
Long Bond:
$102\frac{1}{8}$ ($102\frac{1}{4}$)
yield: 8.542% (8.539)

STOCK INDICES
FT-SE 100:
2,327.5 (−10.0)
FT Ordinary:
1,855.0 (−4.3)
FT-A All-Share:
1,147.80 (−0.4%)
New York close
DJ Ind. Av.
2,915.35 (+1.24)
S&P Comp
359.64 (+0.12)
Tokyo: Nikkei
32,152.43 (−385.43)

LONDON MONEY
3-month interbank:
closing $14\frac{11}{32}$-$14\frac{3}{8}$ ($14\frac{11}{32}$-$14\frac{13}{32}$)
Liffe long gilt future:
Sep $84\frac{3}{4}$ ($83\frac{3}{4}$)

Workers' hero who berated Brezhnev finds his reform credentials fail to match those of the architect of glasnost

Gorbachev re-election helps expose talent shortage

By Quentin Peel in Moscow

MR TEIMURAZ AVALIANI, the former mine manager who yesterday dared to challenge President Mikhail Gorbachev for leadership of the Soviet Communist Party, shot to fame last summer as leader of the first mass miners' strike.

He achieved that fame in turn because, although a manager and not a miner, he had dared to challenge another Communist Party leader in the past – Mr Leonid Brezhnev.

On the one hand, he is a genuine workers' hero, and the epitome of grass-roots resentment against the heavy hand of Moscow rule. On the other, he owes his fame as much to glasnost, and the reforms of Mr Gorbachev, than to anything else.

Back in 1978, in the depths of the period now reviled as the "era of stagnation", the obscure deputy director of a coal mine in the Kuzbas wrote a letter to the head of state urging him to resign. He was not only leading the country to economic collapse, he said, but he was also far too old for the job.

History does not relate if the letter ever got through to Mr Brezhnev, but the KGB rapidly came back to Mr Avaliani, and he was demoted to a junior position.

When the story of his letter finally leaked out, thanks to glasnost, Mr Avaliani swiftly became a local hero, a people's deputy in the first national Congress. When the miners' strike broke out last July, he was elected leader of the regional strike committees.

What he demonstrated yesterday, in his blunt presentation of his platform for the party leadership, was a curious blend of the radical and traditional – reflecting very much the dichotomy in the ranks of his own supporters.

He was all for a market economy, greater independence for enterprises, and regional autonomy beyond the rule of Moscow.

But at the same time he was in favour of strengthening the armed forces, and the party's role within them.

In the end, of course, his challenge could barely dent the majority voting for Mr Gorbachev, not least perhaps because he was too radical for the conservative majority at the Congress.

They voted for the evil they know, rather than the firebrand from the coalfields.

The real battle between left and right should be joined over the election of a deputy leader. No one serious was prepared to challenge the party leader himself, but they may well be tempted to tie his hands with a conservative deputy.

Last week Mr Yegor Ligachev, the uncompromising conservative from the politburo itself, seemed to be throwing his hat in the ring. If he does so, there is no doubt that he reflects a deep longing in the ranks of the Congress for an honest defence of the old ideology, a return to plain socialist values, an abandonment of all this dangerous talk of private property and a market economy.

Yet the man who was Mr Gorbachev's unofficial number two for the first three years of perestroika is almost certainly too old to come back – he is 69, five years older than his leader – and that alone may count against him. The other leading conservative contender is Mr Gennady Yanayev, the newly elected leader of the official trade union movement, and a highly-articulate representative of the neo-conservative party apparatchiks.

He is a passionate defender of wage indexation, guarantees of full employment, and the holding of a national referendum on whether the country should move to a market economy.

Although he pays lip service to that aim, all his policies seem dedicated to the opposite. If he were elected, Mr Gorbachev might find it almost impossible to work with him.

Thus the forces of compromise and consolidation are hard at work, pushing the candidacies of either Mr Vladimir Ivashko, former leader of the Ukrainian party and now president of that republic, or Mr Stanislav Gurenko, the man who replaced him as Ukrainian party leader. Both are pragmatic representatives of the party bureaucracy.

The radicals would like Mr Alexander Yakovlev, Mr Gorbachev's closest colleague and the leading reformer in the leadership. But he has indicated he will not stand.

Mr Vadim Bakatin, the Interior Minister, might be another compromise.

Yet at the end of the day, the very fact that Mr Gurenko is being actively canvassed, largely because of his successful chairmanship of yesterday's boisterous Congress session, is an indication of the lack of real support for any other leader after Mr Gorbachev himself.

Coal miners plan token stoppage in challenge to Government

By Quentin Peel

UP TO 500,000 coal miners across the Soviet Union are set to defy the law, and the political authority of President Mikhail Gorbachev today, by holding a day-long strike and *protest meetings to demand the* resignation of the Government.

The token stoppage comes a year after a mass miners' strike which paralysed the industry and seriously affected electricity and steel production.

It is going ahead in key areas such as the Donbas, the giant Ukrainian coal field, the Kuzbas, in western Siberia, Vorkuta, inside the Arctic circle, and in mines around the Urals, in spite of urgent appeals from Mr Gorbachev, and the Communist Party congress, to call it off.

The miners are demanding the *resignation of the government of Mr* Nikolai Ryzhkov, the Soviet Prime Minister, for its failure to fulfil the promises it made in last year's strike settlement.

They also want curbs on the power of the Communist Party and its official trade unions.

The Kalinin mine near Donetsk became the first at the weekend to expel the Communist Party from its premises at the workers' demand, ordering the closure of the four-man party office.

Coming as it does in the middle of the party congress, the workers' *protest underlines the growing* disaffection of the industrial proletariat with the ruling party. That feeling was reinforced yesterday by the decision of Mr Teimuraz Avaliani, leader of the strike committees in the Kuzbas last year, to stand against Mr Gorbachev for the post of party leader.

"After a year of lies, the miners are ready to deal with the Government from a position of strength," Mr Vyacheslav Golikov, the new Kuzbas miners' leader, told Reuter news agency yesterday. "Now it is clear to all of us that without political *change, there is no hope for economic* demands."

Up to 200,000 workers are expected to down tools for 24 hours at 60 pits in the Kuzbas; 124 mines are to close down in the Donbas for the full day, another 109 for up to eight hours. In Vorkuta, the most radical regions, 11 out of 13 mines are expected to stop work.

The strike is illegal for two reasons: both because it is openly political, and because it is in the energy industry, where strikes are banned under new strike laws to protect the national economy. *However, the authorities have no* specific powers to force the workers back to work, and nor do they want to have such an open confrontation with such erstwhile loyal supporters.

There are reports from several major industrial centres, including Moscow, Gorky, Volgograd, Perm and Chelyabinsk, that factory workers may support the miners' with protest meetings.

East German railmen stage warning strike over pay

By Leslie Colitt in East Berlin

EAST GERMAN train drivers, anxious about job uncertainties and rising prices in the wake of monetary union, staged a one-hour warning strike which paralysed passenger and goods traffic across the country yesterday.

The strike, the latest in a wave of labour unrest hitting East Germany, was called after the collapse on Monday of negotiations between the Union of German Locomotive Drivers and the Deutsche Reichsbahn (state railway).

The union is seeking compensation for a fall in wages resulting from the introduction of the D-Mark on July 1. The employers and three railway unions were continuing negotiations for a wage contract late yesterday.

Mr Gerhard Pohl, the East German Economics Minister, warned the country's unions that the survival of East German companies depended on union demands being "compatible with those of employers."

Farmers joined the growing unrest yesterday with a protest against what they say is the takeover of their domestic market by West Germans. A group of farmers intending to empty a tanker of 10,000 litres of milk in front of a government building in Leipzig stopped after 100 litres when an official came out to speak to them, according to the ADN news agency. Since the two Germanys merged their economies, local food has been forced off the supermarket shelves by West German produce.

Last week metalworkers called warning strikes in the Berlin-Brandenburg region and in Saxony, demanding higher wages, a 40-hour working week and other benefits. Forecasts of a "hot autumn" of strikes, as loss-making companies are forced to shut down, have heightened nervousness in the population. Unemployment rose sharply last month to 142,000 or 1.6 per cent, with the jobless rate growing fastest among women. Unemployment estimates for next year range from 600,000 to nearly 3m.

Big write-off of corporate debt planned

By David Goodhart in Bonn

MORE THAN a third of East Germany's DM130bn corporate debt is likely to be written off, following a meeting last week between Bonn and East Berlin officials and the Treuhand, the trust body which owns most of East German business.

The write-off, which will apply especially to companies in the defence and electronics sector, will leave a hole of DM40bn to DM50bn in the accounts of the East German Kreditbank which will have to be plugged by a long-term loan from Bonn.

At the same meeting it was agreed that a relatively strict line should be taken with the liquidity demands of some 5,000 East German companies which have applied to the Treuhand for emergency aid. About DM16bn has been asked for to ensure survival in July and a total of DM24bn for the third quarter of the year, according to Mr Gunther Krause, the East German State Secretary.

However, it is believed that the officials agreed that only about DM5bn should be paid out in July, which is what East German Finance Ministry officials earlier calculated would be sufficient merely to pay wages for one month.

The state trading body for the southern Gera area reported yesterday that it will soon have to declare itself bankrupt. A wave of bankruptcies are expected over the next few weeks despite help with liquidity problems.

● Mr Reiner Gohlke, head of West Germany's Federal Railway since 1982, has emerged as favourite to take over the post of full-time executive president of the Treuhand.

Threats grow against Soviet military

By David Marsh in Bonn and David Buchan in Brussels

THE EAST German government yesterday made *clear its growing concern* about the impact of German unification on relations with the Soviet Union.

Mr Rainer Eppelmann, the Defence Minister, warned of growing aggression against Soviet soldiers stationed in his country and pointed to the importance of having an interim agreement on their presence after unification, which is expected at the end of the year.

Meanwhile in Brussels, Mr Markus Meckel, the Foreign Minister, complained that last week's Nato summit declaration was still too vague on nuclear disarmament to assuage Soviet worries.

After meeting Mr Manfred Wörner, the German who is Nato Secretary General, and the ambassadors of the 16 Nato members, Mr Meckel hailed the declaration as an important "sign of change" in the western alliance. But he said his country wanted further assurances on Nato's nuclear strategy and "concrete co-operation" with members of the Warsaw Pact.

He revealed that Mr Eduard Shevardnadze, the Soviet Foreign Minister, had written to all his Warsaw Pact colleagues to canvass a response to the London declaration.

In particular, Mr Meckel expressed disappointment that the Nato communique had not committed the western alliance against modernising short-range nuclear weapons, though such modernisation is now extremely unlikely.

However, he voiced optimism that Nato "might accept" a united Germany halving its troop levels to 300,000. In response, Mr Wörner said it was, in the first instance, for united Germany, not Nato, to propose a future level of its troops.

Mr Eppelmann said that two weeks ago Soviet troops were attacked with stones and bottles by 2,000 East Germans. He told the Bonn daily newspaper Die Welt that a serious flare-up was averted only because Russian officers disarmed their troops.

"I don't know what would have happened if they (the Soviets) had had Kalashnikovs in their hands," he said.

"We need to find a political solution for the next few years which will prevent German and Soviet soldiers from going at each other's throats."

He also revealed that there might be as many as 800,000 Soviet citizens in East Germany connected with the armed forces, including 380,000 soldiers as well as wives, children and civilian personnel. This compares with a previous estimate of 500,000.

● The European Commission has calculated that East Germany can expect up to Ecu3bn (£2.1bn) in 1991-93 from EC structural aid funds.

Mr Bruce Millan, the EC regional commissioner, said Brussels was prepared to waive initially some of the technical criteria for allocating this aid; for instance, unemployment, a key yardstick by which EC aid is justified, does not feature prominently yet in East Germany, but is expected to do so shortly.

East Germany's Foreign Minister, Mr Marcus Meckel (left), at Nato headquarters in Brussels yesterday with Mr Manfred Wörner, the alliance's Secretary General

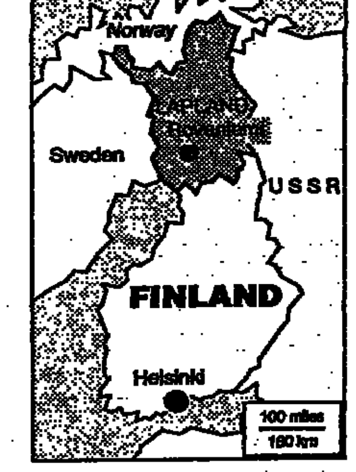
A Sami herdsman tending a reindeer

Samis learn to grapple with local democracy

Karen Fossli visits a tribe living in the land of the midnight sun

IN Finnmark, a northern region of Norway the size of Denmark, the Sami tribe is supplementing its normal activities of hunting, fishing and reindeer herding with the business of local government.

After decades of resistance to rule by Oslo, the Samis were granted the right to establish a parliament – the Samidiggi – separate from Norway's parliament – the Storting – last September, marking their first official recognition by any Norwegian Government.



To most people, Samis are known as Lapps or Lapplanders, a name which, in their eyes, has negative connotations because it derives from an old Swedish word for contempt.

There are an estimated 30,000 Norwegian Samis divided between fjell (mountain) and sjoe (sea) origins. Their ancestry is shrouded in mystery but is rumoured to be a mixture of eastern Asiatic and central European descendency.

Although disregarded by successive Norwegian governments, the tourist industry has been quick to embrace them as a beacon of ethnic and cultural diversity in a deeply homogenous society.

They are Norway's non-conformists. Their status, with very few exceptions and until recently, has been one of curious wandering nomads, living on reindeer and fish and retaining their ancient clothes, speech and inscrutability.

They have spent years resisting a central government policy of Norwegianisation and achieved their first legal milestone in the spring of 1988 when Oslo passed legislation enshrining Sami rights. It allowed them to form a separate parliament and "to establish the conditions for the Sami minority in Norway to be able to safeguard and develop its language, culture and community life."

According to Mr Per Edvard Klemetsen, director of Samidiggi,these two resolutions proclaimed a new epoch in the history of the Sami people in Norway "following the 100 years up to the 1960s during which the Norwegian authorities opposed everything Sami."

Despite these historical changes, Mr Klemetsen takes a cynical view of the Government's intentions.

"In the end, it will depend on how seriously the Government will live up to its promise to listen to the Samidiggi," he believes.

From the Government's point of view there may be questions posed over how seriously the Samis take their new found status. Of some 5,500 Samis, who registered to elect their 39 parliamentary representatives from 13 constituencies, about 4,800 turned out at the polls, a turnout which Mr Klemetsen says is satisfactory.

Mr Klemetsen concedes that with the formation of the Samidiggi the Samis future must be created by themselves and thatthe body's validity will depend on its ability to formulate and implement policy.

Two sessions of the Samidiggi have convened this year and two more are scheduled, although the six individual committees – education and research, the environment, Sami rights, social and health issues, culture and language and organisation and constitutional issues – have yet to meet.

On the political side, the Samidiggi is the main forum for Sami politics, society and culture while its administrative mandate is to distribute state subisides and submit proposals for Sami initiatives for Government allocations from Norway's national budget.

So far this year, their parliament has discussed the problems of reindeer herding, the declining fish stocks of the Barents Sea – both of which directly affect their livelihood – and military exploitation plans.

"The constitutional establishment of the Samis' legal rights, the 'Sami Act' and the establishment of the Samidiggi did not come about by themselves. These are demands which we have fought for over many decades. It has taken a long time," Mr Klemetsen said.

However, there are signs that they are already taking their new opportunities seriously . Earlier this year they succeeded in blocking a military defence plan for artillery exercises in their region. There are also plans to establish trade with their Soviet counterparts on the Kola peninsula.

"Finnmark has the advantage of an established dairy and agriculture industry and we believe that it may be possible to export these products to Kola," said Mr Kjell Saeter, the mayor of Karasjok, in the heartland of Sami country.

It is estimated that there are between 60,000 and 80,000 people of Sami origin in Norway, Sweden, Finland and the Soviet Union, though individually they speak variations of the same language depending on where they live.

Since glasnost the Soviet and Norwegian Samis have been re-united and have held talks on establishing a basis for trade and tourism.

In Karasjok, which is visited by some 130,000 tourists a year, a NKr40m ($6.3m) project is under way to build a cultural centre where a collection of Sami art, handicrafts and exhibitions can be shown.

"We don't want to establish a tourist industry which is plastic but one which is based on showing the genuine lifestyle and culture of the Sami people," Mr Saeter said.

Computer groups battle for Strasbourg vote

By Tim Dickson in Strasbourg and Alan Cane in London

FRANTIC computer industry lobbyists were campaigning in Strasbourg last night as the European Parliament prepared to vote on amending a controversial EC directive aimed at curbing software piracy.

Two powerful camps – one led by IBM, the other an alliance of mainly European and Japanese interests with Fujitsu one of the more significant players – were explaining their positions to MEPs in a bid to influence the outcome of today's session.

The purpose of the directive – first tabled by the European Commission 18 months ago – is to extend copyright protection to the authors of computer software. Unlawful copying of software has become a big problem for the personal computer software industry, costing it millions of dollars a year in lost revenues.

Brussels' original draft, however, caused an outcry because it appeared to outlaw "reverse engineering", threatening to limit the freedom of computer companies ranging from large hardware manufacturers like Bull of France and ICL of the UK to small software houses to produce programs compatible with those of their competitors without express permission and paying of licence fees.

Opponents of the draft argue that it will hinder the development of "open systems" which offer computer users powerful savings by making it easier to connect computer systems from different makers together and run the same software on machines of different design.

The Commission has already drawn up its own internal compromise, which would modify the original proposal. Experts say the new draft is flawed in minor details but offers a useful basis for progress.

Last night, however, there appeared to be considerable support – notably from the dominant Socialist group – for a Strasbourg amendment allowing reverse engineering. The other large bloc – the Christian Democrats – seemed to be lining up on the other side.

Supporters of the amendment concede that EC decision-making procedures give Parliament little power in the matter – but they believe that if it goes their way in today's vote it will provide moral pressure when the issue returns for further discussion in the Council of Ministers.

Computer industry experts fear, however, that if the two industry power blocs continue their extraordinary lobbying campaign, time will be wasted which should be used to study other, equally important areas of the draft directive.

Ethnic tension rises in Bulgaria

BULGARIA'S first freely-elected parliament since 1945 opened yesterday against a background of rising ethnic and political tension, Reuter reports.

Police imposed tight security, barring traffic from the centre of the medieval northern city of Veliko Turnovo where 400 newly-elected deputies gathered.

Groups from the main political parties gathered at entrance points to the city to try to turn back busloads of nationalists expected to converge on parliament to protest against the presence in the assembly of 23 ethnic Turkish deputies.

The main task of the 400-member Grand National Assembly, elected last month, will be to draft a new constitution. The former Communist Party, now the Socialist Party, has 211 seats.

The opposition Union of Democratic Forces, led by former dissidents, has 144 and insists it will not join the Socialists in a coalition.

The two-hour opening session follows a week of political upheaval and public dissent. President Petar Mladenov, who ousted the hardline leader, Mr Todor Zhivkov, in November, resigned last Friday under opposition pressure over an amateur videotape that apparently showed him calling for army tanks to crush an anti-Communist protest last December.

Hundreds of intellectuals have vowed to stay camped outside the presidential offices in central Sofia until a date is set for a public trial of Mr Zhivkov and details of the wealth of the ruling party.

The opening of parliament has reawakened nationalist feeling against the 1.5m-strong Turkish minority, represented in parliament by the Movement for Rights and Freedoms.

Two minority opposition parties said they would organise a human chain around the Veliko Turnovo parliament to "protect the holy building from Turkish feet".

The first session is being held in Veliko Turnovo because the city was the seat of Bulgaria's first Grand National Assembly, held 111 years ago after the end of Turkish rule.

Lisbon warning on privatisation

THE Portuguese authorities have threatened senior managers of state-owned companies with the sack if they make any more comments on the Government's privatisation programme, writes Patrick Blum.

The warning follows comments at the weekend by Mr Pedro Rebelo de Sousa, president of the Banco Fonsecas e Burnay, a state-owned bank earmarked for privatisation. He said the bank should be 100 per cent privatised in a single operation rather than in several stages as has been the case with other institutions.

Mr Elias da Costa, the State Secretary for Finance, said such comments could be considered "intentionally prejudicial".

MEPs demand to be heard in European union debate

By Tim Dickson in Strasbourg

THE European Parliament will today make a determined effort to have its voice heard in the gathering debate over European political union.

MEPs are expected to adopt four reports setting out their position for November's intergovernmental conference (IGC) on institutional reform, notably on how to strengthen democracy in the European Community.

By far the most important contribution is the report written by Mr David Martin, the British Labour MEP, which calls for the Parliament and the Council of Ministers to have an equal voice in EC legislation.

Setting out in more detail ideas first floated earlier this year, it takes as a model the West German system, under which power is shared between the Bundestag (lower house) and the Bundesrat (upper house), and envisages a new conciliation procedure to solve disagreements.

With several member states known to be hostile to any substantial extension of Strasbourg's powers, MEPs are hoping for at least some encouragement from Mr Jacques Delors, the Commission president, when he addresses the assembly tomorrow. Although he will be speaking in the debate on the Italian presidency of the EC, he has apparently indicated that he will make some comments on institutional reform.

The Martin report also suggests that Parliament be allowed to elect Commission presidents and to share Brussels' right to initiate legislation.

Another report, by the Italian member Mr Emilio Colombo, also deals with political union, but it looks beyond the IGC to guidelines for a new draft EC constitution.

Also due for adoption today are the ideas of France's former President, Mr Valery Giscard d'Estaing, on "subsidiarity" – the Community expression for the granting to EC institutions of only those functions which cannot be carried out at national or regional level – and of the Italian ex-Communist Mr Maurice Duverger on relations with national parliaments. The gradual loss of powers over EC policy-making by national parliaments (and the lack of any corresponding increase in the authority of the European Parliament) is the subject of a special meeting of parliamentarians from the Twelve and MEPs in Rome in the autumn.

The Financial Times (Europe) Ltd
Published by the Financial Times (Europe) Ltd., Frankfurt Branch, (Guiollettstrasse 54, 6000 Frankfurt-am-Main 1: Telephone 069-75980; Fax 069-722677; Telex 416193 represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, R.A.F. McClean, G.T.S. Damer, A.C. Miller, D.E.P. Palmer, London. Printer: Frankfurter Societaets-Druckerei-GmbH, Frankfurt/Main. Responsible editor: Sir Geoffrey Owen, Financial Times, Number One Southwark Bridge, London SE1 9HL. The Financial Times Ltd, 1990.

Registered office: Number One, Southwark Bridge, London SE1 9HL. Company incorporated under the laws of England and Wales. Chairman: D.E.P. Palmer. Main shareholders: The Financial Times Limited, The Financial News Limited. Publishing director: B. Hughes, 168 Rue de Rivoli, 75044 Paris Cedex 01. Tel: (01) 4297 0621; Fax: (01) 4297 0629. Editor: Sir Geoffrey Owen. Printer: SA Nord Eclair, 15/21 Rue de Caire, 59100 Roubaix Cedex 1. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

Financial Times (Scandinavia) Ostergade 44, DK-1100 Copenhagen-K, Denmark. Telephone (01) 13 44 41. Fax (01) 935335.

WORLD TRADE NEWS

Tokyo 'will adhere to budget plans despite SII pledge'

By Robert Thomson in Tokyo

JAPAN's Finance Ministry, now finalising the framework of next year's budget, will not make major changes to spending plans, despite public investment commitments made in the Structural Impediments Initiative (SII), government officials said yesterday.

Argument over the public investment figure delayed the settlement of SII negotiations, though a senior government official said yesterday that the first priority in framing the coming budget was to "satisfy the needs of the Japanese people," not risk inflation with a surge in public investment.

Under the SII agreement fashioned with the US two weeks ago, Japan has promised to spend Y430,000bn ($3.3bn) on public investment over the next 10 years, though ministry officials emphasised yesterday that the total would come from various sources, including public corporations.

"The best way to describe the impact of SII is that we are keeping in mind our commitments. We don't have a piece of paper beside us to use as a guide. The most important thing for us is to secure the living standards of Japanese," an official said.

Japan's Cabinet is due to approve the budget framework on July 27, and other ministries will then make more detailed spending proposals within that. Washington is watching closely to see if promises are kept, though the diversity of public investment sources will make the task very difficult.

"SII doesn't mean that Budget plan A becomes Budget B. It is not a change in that sense. We will keep our promises," one official said.

Japanese newspapers have said that investment will be cut in some areas to compensate for an increase in public investment, or that the central government will put pressure on local governments to increase their share of the total figure.

A senior official denied that there was a plan to increase the burden of investment responsibility on local governments, but raised doubts about the US strategy of trying to change Japan's savings and investment patterns by forcing an increase in public spending.

"Theoretically, it could work that way, but we really can't see the result for a long time," the official said.

Sour taste in EC food makers' mouths

There is alarm about farm talks proposals to cut 'export refunds', writes Tim Dickson

THE attempt this month to break the deadlock over farm reform in the Uruguay Round of multilateral trade talks may have left a sweet taste in some mouths – but not in those of Europe's leading chocolate makers.

The reason lies in the proposal from Mr Aart de Zeeuw, chairman of the General Agreement on Tariffs and Trade group negotiating agriculture, that export subsidies be reduced more sharply than other forms of protection and that payments to food processors in particular should be the object of new "disciplines".

It is perhaps not widely known outside trade circles that when European Community food companies sell into a non-Community market they receive a so called "export refund" from the Community budget. The system operates on the same principle as that which enables Brussels to dispose of surplus agricultural commodities such as butter and beef on the world market.

As Mr Richard Johnson of the UK's Food and Drink Federation explains: "The payments are compensation for the difference between the high Community prices that EC manufacturers are forced to pay for agricultural raw material of their products and the very much lower prices available to the industry's competitors".

There has long been a view among the EC's trading rivals that these refunds are an unfair subsidy which not only provide an unjustified advantage for food manufacturers in their international dealings but which perpetuate the very existence of the Common Agricultural Policy. Mr de Zeeuw's words therefore will no doubt be welcomed in some quarters as exerting renewed pressure for their abolition.

EC food companies argue that to negotiate on 'export refunds' in isolation from other forms of internal protection risks undermining Europe's export competitiveness

EC food companies, on the other hand, argue that so long as the CAP continues in its present form, such payments should continue, and that to negotiate on them in isolation from other forms of internal protection risks undermining Europe's export competitiveness with all that this implies for profits and jobs.

Chocolate manufacturers have been in evidence over the last few months in a food and drink industry lobbying campaign designed to counter signals that the EC side is willing to sacrifice their cause.

Few deny that the system as it stands is unacceptably opaque and liable to distortions for individual product sectors. Numerous recipes and formulae translate the proportions of flour, fat, sugar and eggs in a given product into hard cash.

But, to give just two examples of the difficulties involved, the extraction rate of flour from wheat can vary according to the quality and year, while branded items such as chocolate bars can be sold at any time over a relatively long period.

Some reform of the system is therefore overdue. But even before the compromise paper from Geneva this month, industry experts had been worried that changes agreed in the Uruguay Round might go too far for their liking.

They point, for example, to the way that Brussels reduced the hard wheat subsidies paid to Italian pasta exporters two years ago and how 18 months ago the EC first scaled down then abolished completely the "refund" on wheat gluten.

"Wheat gluten, an essential product for making flour stand up, is the classic case," says Mr Freddy Rees of Rank Hovis. "It was clear that the US and Australia were applying strong pressure to defend their domestic industries."

Rumours that the EC may now be prepared to accept a bigger cut in refunds to food companies than for other types of subsidy – as well as the introduction of a *de minimis* rule which would abolish them completely if they were below a certain percentage of the invoice price – have been greeted with alarm.

"Export refunds are a consequence of the CAP system of high farm support prices and hence must be negotiated as an inter-related part of the negotiations on reducing the general level of agricultural support and protectionism," insists Mr Johnson.

"The FDF has long supported the return to more market-orientated agricultural policies which would result in Community prices and those of world markets being closer together. As this gap is reduced so the level of export refunds for value added products will necessarily diminish," he says.

Citing examples of confectionary and milk products whose export refunds represent respectively 10-11 per cent and between 42 and 63 per cent of the invoice price, he says: "In both cases the lack of a competitive export refund would have made the exports unprofitable and they would not have taken place."

Delhi and Moscow to extend trade pact for five more years

By K.K. Sharma in New Delhi

INDIA and the Soviet Union have agreed to extend their trade and payments agreement for another five years until 1995.

This ends speculation over the future of Indo-Soviet trade under Mr Mikhail Gorbachev's reform programme and eventual plans to make the rouble convertible.

Indo-Soviet trade, which involves a two-way turnover of over Rs70bn, (£2.2bn), has been conducted on the basis of what is known as rupee payment without involving hard currency for the last three decades.

In effect, the system implies countertrade, since the two countries draw up a trade plan each year which provides for a balance of exports and imports.

An actual balance has rarely been achieved and the two countries have worked out a system by which the surplus country gives "technical credits" to the other.

The surplus has favoured India for many years and it is widely believed this has been used to make purchases of Soviet armaments.

India has found the system useful because no hard currency is involved and Delhi has favoured its extension, particularly as the Soviet Union supplies substantial crude oil, petroleum products and fertilisers which would otherwise have to be imported from other countries.

The Soviet Union has now agreed to increase supplies of crude and petroleum products from 1991.

It will supply other raw materials and commodities to India, including newsprint, coking coal, rolled steel products and potash.

India supplies the Soviet Union with large quantities of consumer goods and some machinery and equipment. The Soviet Union has now agreed to accept larger quantities of textiles and jute products and is also considering higher coffee imports.

The two countries have agreed to increase their two-way turnover by 250 per cent by 1995, a target set by Mr Gorbachev when he visited India four years ago.

They have exchanged a number of delegations to make this possible. India's trade with East Germany, at present conducted on a rupee payment basis, is expected to switch to settlement in convertible currency from next year.

Call to relax Cocom technology controls

CONTROLS on technology exports to Warsaw Pact nations must be reformed immediately in line with changing political reality, US and Japanese business leaders said yesterday, Reuter reports from Osaka.

Political and social change in eastern Europe is challenging the structure of the export controls, executives at the 27th annual Japan-US business conference in Osaka said.

A report issued at the conference to be submitted to the Japanese and US governments calls for a comprehensive review of high-technology export controls established in 1949 by the Coordinating Committee for Multilateral Export Controls (Cocom).

Cocom comprises most Nato nations plus Japan and Australia and regulates the export of high-technology and military-related goods to Warsaw Pact nations and China.

While Cocom-member countries should maintain export controls on some military-related and other critical technology, the report recommended narrowing the scope of Cocom lists.

It urged the standardisation of export control lists among Cocom members to help exporters and licensing officials by simplifying classification and licensing.

Taiwan in drive to cut trade deficit with Japan

By Peter Wickenden in Taipei

TAIWAN has drawn up measures to reduce its trade deficit with Japan, including restricting Japanese bids for government procurement contracts and stepping up anti-dumping investigations.

The deficit with Japan grew by nearly $1bn (£550m) to $6.96bn in 1989. It rose by 20 per cent in the first quarter of 1990 over the same period last year, is forecast to reach $8.2bn this year and to top $10bn by 1992, when it would be bigger than Taiwan's surplus with the US.

Taiwan relies heavily on Japan for industrial goods, car parts and electrical components, but finds little to export in return. Growing worry over Japan's refusal to talk about the problem has led to the following measures from the Economics Ministry:

- Taiwanese industry will be encouraged to procure goods from places other than Japan;
- Japanese companies in Taiwan will be urged to export more goods back to Japan;
- Government departments and state enterprises will restrict procurement as far as possible to the US and Europe;
- Investigations into alleged unfair trading practices by Japanese exporters will be stepped up;
- Taiwanese customs will go strictly by the rulebook in processing goods imported from Japan;
- Stricter screening will be applied to investment applications by Japanese companies. Preference will be given to projects that transfer high technology to Taiwan and/or ship goods back to Japan;
- Stricter screening will be applied to Japanese nationals employed by Japanese companies in Taiwan, as with issuance of residence visas;
- The government will study ways to diversify sources of imports, making special reference to South Korean efforts to stem imports from Japan.

Reuter adds from Taipei: Taiwan is facing growing pressure from Hong Kong and five South-east Asian countries to reduce its trade surplus with them, officials said. In the first half of 1990, Taiwan's surplus with its neighbours exceeded that with the US.

Official figures showed Taiwan's trade surplus with Hong Kong, Singapore, Thailand, the Philippines, Malaysia and Indonesia jumped to a record $4.4bn in the first half of 1990 from a previous high of $3.1bn. This compared with a surplus of $4.03bn with the US in the same period.

ABB subsidiary wins order for power-plants from Korea

By William Dullforce in Geneva

ASEA BROWN BOVERI, the European electrical engineering group, has announced a successful bid by its Swiss subsidiary to supply two gas-fired combined-cycle power-plants to South Korea. Total value of the plants is $750m (£418m), of which ABB will collect the larger part.

Last week, ABB reported a similar order from the UK. In a joint venture with Northern Engineering Industries, it won a £200m-£250m contract to supply gas-fired equipment for a new 650MW power-station at Killingholme, Humberside.

Under the Korean contract, ABB will supply the main equipment for a 450MW plant in Anyang and a 600MW plant at Bundang, outside Seoul.

As well as generating electricity, the plants will supply district heating in the two cities.

So far this year, ABB has taken orders worth $1.5bn for such plants.

Turkey plans EC change

TURKEY plans to simplify its export regime by the end of July, curbing sometimes Byzantine documentation procedures in a bid to comply with regulations of the European Community, a senior Treasury official said, Reuter reports from Istanbul.

"One single document will be required from exporters, instead of up to 18 under the present system. The exports legislation will be reduced to four pages from 300 now," Mr Yasar Yazicioglu, Exports department head at the Treasury, said.

Only three or four export items like weapons will require prior authorisation. The Government will also transfer its regulatory authority to private sector institutions like banks.

Japanese in first big E Europe deal

By Stefan Wagstyl in Tokyo

TWO privately-owned Japanese electronics companies have signed a joint venture to produce *facsimile* machines in East Germany in the first large manufacturing investment in eastern Europe by the Japanese electronics industry.

MEI Japan and *Nissei Opto* have stolen a march on Japan's electronics giants to reach agreement with Robotron-Elektronik, the East German state combine. Meag Electronic, a Swiss *affiliate of* MEI, is also a partner in the $50m (£28m) investment.

The joint venture will employ 350 people making initially 100,000 small fax machines a year, starting in 1991. At first they will be sold in eastern Europe but later the *partners hope* to export to western Europe. Robotron is also negotiating with MEI to bring in other partners to establish production lines for video recorders and mobile telephones. The ventures will eventually employ 2,500 of Robotron's 68,000 workers.

MEI and Nissei Opto are the first non-German companies to agree joint ventures with Robotron, one of East Germany's most valuable industrial organisations. Siemens, the West German electronics combine, has secured a partnership with Robotron's computer division and Robert Bosch, also of West Germany, has an agreement covering microwave production.

Mr Kiyoyuki Yasutomi, president of MEI and a main shareholder, said: "Some people say we are moving too fast, that we are gambling. But we are not being too aggressive. The big companies are too slow. They take time discussing things at committees."

The deal would give MEI and Nissei Opto a European production base, said Mr Yasutomi. The companies would bring to Robotron their technology, machines and products. As well as the existing lines of fax machines, they would introduce to Robotron a car fax machine now under development in Japan. This would be sold to leading European carmakers, he said.

MEI has its main production plant in Pakistan, where it moved in 1980 in response to rising costs in Japan. About 1,000 people are employed assembling telephone switchboards, video cassette players, and radios, mostly for sale by other manufacturers under their brand names. Turnover is about $50m a year. Nissei Opto, which has turnover of about Y20bn (£74m), employs about 1,000 people in Japan, mainly making facsimile equipment.

US warns against visits to Kenya

By Julian Ozanne in Kiambu, Kenya

THE US has warned travellers that Kenya was unsafe to visit, despite the restoration of law and order throughout most of the country yesterday following four days of anti-government rioting.

In a separate statement, the US State Department defended its ambassador to Kenya, who has been criticised by the government for offering refuge to Mr Gibson Kamau Kuria, a leading government critic and advocate of a multi-party democracy.

The US ambassador "has the full support of the Department of State. His statements concerning democracy and human rights in Kenya reflect US government policy as we state it around the world," the department said.

The travel advice, which is bound to anger the Kenyan government, will hit tourism – Kenya's number one foreign exchange earner, with almost 700,000 visitors last year.

President Daniel arap Moi's crackdown on political opponents has sparked congressional calls for a freeze on US military and economic aid to Kenya, which this year will reach almost $50m.

Congressman Howard Wolpe, chairman of the House Africa sub-committee, wants to cut or freeze US aid levels until Kenya improves its human rights record.

The British Foreign Office said Britons visiting Kenya should exercise "prudence and care" but, "at this stage we are not advising people to cancel holidays". A further four people were shot dead and 35 injured yesterday as gangs of stone-throwing youths fought sporadic battles with anti-riot police in the towns and slums in Kiambu district, about 20km from Nairobi, but the capital was almost back to normal with shops reopening and buses operating.

In his first reference to the violence which has rocked Kenya in recent days President Moi said yesterday that those causing the troubles were hooligans and drug addicts.

It is too early to say whether the disturbances of recent days have been quelled. So far, the troubles have been largely confined to areas of the predominant Kikuyu tribe, which accounts for 14 per cent of the population but which has been increasingly marginalised under Mr Moi's regime. All the leaders of the campaign for a multi-party democracy detained last week, except one, are Kikuyu. Mr Moi comes from the Kalenjin tribe.

Domestic debt deepens the economic crisis in China

Peking is running into problems as it tries to modernise without reform, A Correspondent writes

AN ACUTE domestic debt crisis which has exacerbated unemployment, slowed industrial growth, and paralysed factories is still troubling China's economy. The debt crunch – a result of a shortage of working capital – has hit both Chinese and *foreign manufacturers* who either export to China or make goods here.

Since the government implemented its austerity programme in 1988 and tightened credit, many enterprises have been unable to repay suppliers who in turn cannot pay other factories for goods and services. In many cases, even companies that make products *for export have been unable to* buy hard currency in order to purchase vital imported parts or raw materials.

While the crisis has in recent weeks begun to ease in certain *sectors, both Chinese and western* analysts estimate the scope of the domestic debt ranges from yuan100bn to yuan200bn (£11.84bn to £23.6bn) compared with a 222bn foreign trade deficit.

The problem is nationwide and has hit all industries. Quite a number of Chinese companies – even the bigger ones – are not able to fulfil *their obligations to foreign* companies.

With little or no cash moving through the system, goods are stockpiled and industrial output is low. Both unemploy*ment and under-employment* have risen, with many workers having little work to do and their bonuses cut. A lot of workers have been sent home on 50 per cent salary and no bonuses.

The government stopped inflation, but caused discontent at the worker level. Morale has been extremely low. Examples of the debt crunch abound. Earlier this year, the Beijing Jeep Corporation, the joint venture between Beijing Autoworks (BAW) and Chrysler, had an inventory of about 550 unsold Cherokee Jeeps.

Beijing Jeep was unable to obtain import licences for more parts until it paid its local suppliers. The company could not pay the tax until it got an infusion of cash, western sources said.

Other joint venture car manufacturers with foreign partners faced similar problems: Volkswagen Santana had a backlog of about 2,000 cars in Shanghai, and Peugeot also *had a large inventory. There* were orders for the cars – demand for private transportation is high in China – but because of the severe liquidity crunch, few organisations had the cash to pay for the cars, or were reluctant to spend in the current climate of austerity.

All three car manufacturers finally resolved their cash-flow problem when the state planning commission stepped in. The commission authorised the state materials bureau to buy the cars and distribute them to approved buyers. In Beijing Jeep's case, the company negotiated a settlement with the government for the outstanding tax. BAW is believed to still owe money to Beijing Jeep.

Western observers said the state bailed out the three car makers because they are in a priority sector, and because their deals were approved by the central government. Not all manufacturers are so fortunate. Japanese traders who sold steel products to China have been waiting for more than a year to be paid, and a delegation has recently gone to Japan to discuss the problem.

In other instances, suppliers have often been paid in goods rather than cash. One spare parts maker for a car manufacturer was paid with cars.

The debt crunch has hit heavy industry particularly hard. The Baoshan steel complex in Shanghai defaulted on yuan1.1bn in the first quarter of this year, while the Wuhan iron and steel complex defaulted on yuan280m, according to a Chinese source.

Probably because these are huge state-owned enterprises, the central government made funds available to keep them afloat. The key Daqing oil and chemical factory, in north-east China, was owed $81m last summer by 1,100 enterprises. The banks agreed to lend money to allow production to continue.

In the short term, this liquidity crunch is extremely difficult to resolve, particularly since it is indicative of deeper *structural economic problems,* according to western analysts.

Nonetheless, Peking has set a deadline of the end of July to resolve the issue. Senior officials have held meetings across the country in an effort to clear the defaults.

All major Chinese foreign trade corporations, except those with strong exports, are experiencing severe financial *problems, and the People's* Bank, the country's central bank, has not helped them.

Despite the government's attempts to assist only healthy enterprises, its subsidies to *support ailing companies have* also increased, western bankers said.

To stop the defaults and pull the economy out of its current slump, the People's Bank plans to nearly double its credit target for this year and lower interest rates for deposits and loans, according to the overseas edition of the People's Daily.

Other Chinese banks have been given permission to increase lending by 10 per cent. Yet so far there has been little growth in consumption or investment. Nonetheless, industrial output has risen and the economy has shown some signs of recovery. Industrial output rose by 4.2 per cent in May compared with the same month last year, still well below last year's industrial growth rate of 18 per cent.

Zhao Ziyang, China's former party secretary, sacked for allegedly splitting the party after the Peking massacre last year, may resume a limited economic role, the well-connected left-wing Mirror magazine, published in Hong Kong, has reported, Peter Ellingsen writes from Peking and Colina MacDougall from London.

Zhao's liberal economic policies were reversed in autumn 1988 as his hard-line opponents seized the chance offered by galloping inflation to quash reform, and he was put under house arrest in June 1989.

Deng Xiaoping, China's senior leader, is said to have asked him to consider resuming work and to prepare a report on regional trends.

Zhao is reported to have expressed interest and made some mild self-criticism.

Zhao is believed to be living under minimum surveillance. China's hardliners are thought to have wanted to purge him, but the moderates were able to deflect such moves.

A minor reappearance by Zhao soon might inspire fresh confidence in western countries that China regretted the slaughter of last year and was seeking to reinstate reform.

Surge in EC trade with Palestinians

By Hugh Carnegy in Jerusalem

DIRECT FARM produce exports from Palestinian traders in the Israeli-occupied territories to the European Community, established two years ago despite Israeli reluctance, increased dramatically this year, prompting hopes for more expansion.

Citrus exports from the Gaza Strip to the EC rose to 11,380 tonnes in the 1988-89 season from just 2,300 tonnes in the first season when problems ranging from disputes with importers to rows over the handling of the fruit by Israeli shippers soured expectations.

Direct exports of produce from the West Bank, including aubergines and peppers, jumped from 90 tonnes in the first season to 530 tonnes in the second. A total of more than 50 tonnes of tomatoes, potatoes and strawberries were also shipped from Gaza.

Although the quantities remain small even by standards of local production, both EC officials and Palestinian exporters are pleased that the practice of direct trade has been firmly established.

It was part of a strong commitment by the EC to aid Palestinian economic development. Much of the direct annual aid from the Community, which the recent Dublin summit decided to double to Ecu12m (£8.3m) by 1992, goes to agriculture.

Mr Mansour Shawwa, head of the Gaza citrus exporters committee, said revenues from EC sales of $4.2m (£2.34m) and good prices for much larger exports to Arab countries via Jordan had led to a "relative boom". EC shipments, mainly to Gos Van Den Berg of Holland and Fyffes of the UK, could have been greater but for *a mysterious cancellation of* some 7,000 tonnes in sales to Fyffes which sparked rumours of Israeli pressure on the Irish-owned company.

Mr Shawwa foresaw citrus exports to *the EC rising to* 25,000 tonnes and said there was much potential for expanding trade in other local produce.

Anglo American defends size

By Philip Gawith in Johannesburg

ANGLO AMERICAN yesterday stepped publicly into the debate about the future shape of the country's economy with a strong rebuttal of arguments that its size and influence in the economy are unhealthy and that it should be dismembered.

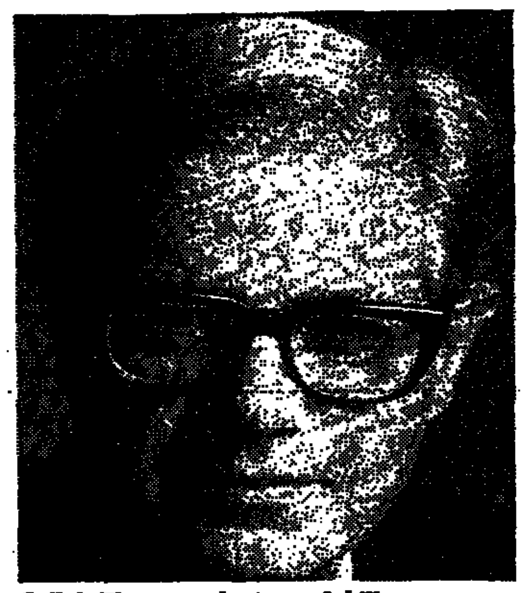
Afrikaner governments have long viewed the country's largest corporation with a certain antipathy, but this latest *statement* is clearly addressed at those on the left, the African National Congress in particular, which has made clear its view that the concentration of economic power in white hands will have to change.

Mr Julian Ogilvie Thompson, in his annual chairman's statement, says the oft-quoted figure that Anglo American, its associates and the companies it allegedly controls account for 45 per cent of the Johannesburg Stock Exchange capitalisation is "grossly exaggerated by double-counting and other errors".

Mr Ogilvie Thompson suggests a better measure of concentration of ownership in the economy comes from examining ownership of the nation's fixed assets. These indicate, he says, that Anglo American and associates and the companies they "control" account for 6 per cent of the total.

As to the real worth of Anglo American, Mr Ogilvie Thompson notes that ventures the company has developed from grassroots now account for some 25 per cent of the JSE's capitalisation.

On the question of size he says that it is often a prerequisite for successful competition in international markets. "The United States and other large countries can afford the luxury of preventing what they deem to be unduly large aggregations of capital, as this still leaves them with the largest companies in the world. Small countries such as Switzerland, Holland, Sweden and South African cannot – and should not try."



Ogilvie Thompson: best use of skills

He noted that the group system had emerged as a means of best using skills which were in short supply.

Mr Ogilvie Thompson also addressed the argument that the accumulation of capital in the hands of the big groups has led to a socially undesirable pattern of investment saying "it is absurd to argue that the minimal growth in net real investment is due to a failure of the savings system... while it is indisputable that the proportion of institutional and corporate funds being held in liquid form is exceptionally high, that is not a consequence of the system but of a lack of attractive long-term investment opportunities."

Sikh gunmen kill former minister

By K.K. Sharma in New Delhi

SIKH gunmen yesterday shot dead Mr Balwant Singh, a former finance minister of Punjab and architect of a 1985 accord with the federal government that aimed to fulfil Sikh demands for more autonomy.

Mr Singh's two bodyguards and driver also died in the attack near the state capital, Chandigarh. Mr Singh, 61, was leader of the Akali Dal-Badal party, and owned several factories. He was returning from Mohali to Chandigarh when he was killed.

Suspected Sikh extremists also shot dead six other people across the state on Monday night. The deaths bring to 1,342 the number killed by Sikh gunmen this year.

The continued violence could lead to a cancellation of state elections scheduled to take place in November. The Indian Home Minister, Mufti Mohammed Sayeed, said yesterday that the polling would be postponed unless there was a perceptible improvement in law and order. Although parliamentary elections were held in Punjab last November, state elections have not been held there since 1986.

The state has been under direct rule from New Delhi for more than three years through an amendment in the constitution. It is almost certain to be extended when parliament reconvenes next month.

The government of Mr V.P. Singh, the Prime Minister, promised to apply a "healing touch" in Punjab when it took office. However, it has failed to establish contact with the militants who demand a separate nation they call Khalistan.

The Prime Minister has visited Punjab twice and consulted with other parties without finding a solution to the six-year crisis.

Sikh moderates are still squabbling and the government feels it cannot take over the Punjab administration.

Sabah plot foiled

Police said they had detained five people allegedly involved in a plot to seize power in Sabah state and pull it out of the Malaysian federation, AP reports from Kuala Lumpur. One European mercenary was also believed to be involved in the plot, according to Mr Abdul Rahim Mohamad Nor, the deputy inspector general of police, who made the disclosures at a news conference.

Iran and Syria seek to reforge neighbourly ties

By Victor Mallet

IRAN and its ally Syria yesterday redoubled their diplomatic efforts to re-enter the mainstream of Middle East politics, following the Iran-Iraq talks earlier this month to consolidate the peace in the Gulf.

Mr Ali Akbar Velayati, the Iranian Foreign Minister, began a two-day visit to Kuwait and met Sheikh Jaber al-Ahmad al-Sabah, the Emir, and other senior officials in the first high-level contact between the two sides since the 1979 Islamic revolution in Tehran.

In Cairo, Egyptian officials said President Hafez al-Assad of Syria was expected to arrive on Saturday for his first official visit in 17 years. Egypt is trying to mediate between Syria and Iraq.

Kuwait, Saudi Arabia and other Arab Gulf states, fearing the spread of Iranian revolutionary ideas to their own Shia *Moslem communities,* supported Iraq during the eight-year Gulf war which ended with a ceasefire in 1988.

Yesterday, however, Iran and Kuwait – whose concern *about Iranian subversion is* more than matched by its fear of Iraqi expansionism – agreed to become good neighbours. "This will create the best conditions to build up trust and co-operation between all countries in the region," said a Kuwaiti official.

Mr Velayati also thanked Kuwait for last month's acquittal of four Kuwaiti Shias accused of trying to overthrow the government, the Iranian news agency said.

Within Opec, meanwhile, Iran and Iraq have found that they share a desire to increase oil prices so that they can pay for post-war reconstruction, and an Iranian official was quoted this week as supporting an Iraqi oil price target of $25 a barrel.

Bishops avoid Aquino criticism

By Greg Hutchinson in Manila

ROMAN Catholic bishops in the Philippines delayed publication of a pastoral letter critical of Mrs Corazon Aquino's support for limited artificial birth control yesterday, pending a meeting with the President.

The reprieve is both a victory for Mrs Aquino, who has only recently been convinced of the perils of over-population, and a source of solace for liberal churchmen who acknowledge the government's role in population policy.

Instead of releasing the pastoral letter, the bishops, winding up a week-long conference near Manila, issued a statement condemning abortion, contraception and sterilisation.

But the statement incorporated a proviso that "the government has the right to intervene in matters of population".

The concession is significant, given the traditionally unswerving reliance on dogma by the country's bishops.

Now, evidently, they feel they need Mrs Aquino as much as she needs them.

"It is hoped that the dialogue will ward off confrontation and produce some understanding between church and state.

"The bishops believe that it is possible for the church to work harmoniously with this government in an effort to solve the national problems of poverty and of economic development," the bishops said in their statement.

The president's office recently assumed responsibility for family planning from the department of social welfare, citing worries that the rapid increase in the country's population was eroding economic gains.

The Philippines' population is more than 60m people and growing by more than 1.5m a year.

Indian airline strike

Engineers and other employees of state-owned Indian Airlines will go on a 24-hour strike on tonight to protest against alleged mismanagement of the company, Reuter reports from New Delhi. Mr Arif Mohammed Khan, the Aviation Minister, yesterday led MPs onto an Airbus A320 for the company's first passenger flight on the sophisticated aircraft since one crashed near Bangalore five months ago.

Amnesty in grim account of human rights abuses

By Robert Mauthner, Diplomatic Correspondent

AMNESTY International yesterday painted a gruesome picture of human rights violations in the world in 1989, including the imprisonment, torture and murder of thousands of people by governments trying to control ethnic and nationalist unrest.

Virtually no area in the world, including western Europe, escaped criticism in the report by the London-based human rights organisation.

In the Middle East, the Arab countries, Iran and Israel were all accused of serious human rights violations. Judicial executions increased during the year in Iran, where at least 1,000 people were hanged under a new law imposing the death penalty as mandatory for drug possession. In Israel and the occupied territories, more than 260 unarmed Palestinian civilians were killed.

Hundreds of people were executed in Iraq, where thousands of political prisoners, many of them members of Kurdish opposition groups, were still in custody. Saudi Arabia also saw dramatic increases in the number of death sentences and executions, while Egypt had detained more than 8,000 alleged supporters of Islamic opposition groups.

Whereas hundreds of prisoners of conscience were freed in Africa last year, major human rights abuses persisted throughout the continent. In Somalia and other countries where government troops were fighting insurgents, such as Ethiopia, Liberia and Sudan, "significant numbers of unarmed civilians arrested were summarily executed".

However, the report also claimed that ill-treatment or torture in police custody or prisons was reported in Austria, France, Italy, Portugal, Spain and West Germany. In the UK, "the government continued to refuse to establish a judicial inquiry into disputed killings by security force members during the 1980s".

Taiwan to open up forex dealing

TAIWAN will allow any foreign bank anywhere with a Taiwan branch to take part in the domestic foreign exchange market from August 7, the Taipei Foreign Exchange Market Development Foundation has announced, Peter Wickenden reports from Taipei.

The non-profit-making foundation acts as Taiwan's sole foreign exchange broker. At present, only domestic banks and local branches of foreign banks can conduct foreign *exchange transactions, swaps* and interbank call loans.

The latest reforms are aimed at internationalising Taiwan's capital markets. They will allow foreign banks abroad and *overseas branches of* Taiwanese banks to take part. A spokesman for the foundation added that the Taipei hopes to establish an on-line link with the Singapore market by the end of the year, but progress was slow.

The foundation was set up a year ago with an injection of $5bn (£2.8bn) and DM500m (£169.5m) from the Central Bank.

What 15 years of ill-conceived aid has given to Tanzania

BY THE year 2000, at the cost of $1.9bn of western aid, Tanzania's potholed road network will be restored to 70 per cent of what it was in 1975.

It is a damning assessment for a country which has consistently been ranked one of the world's top aid per capita recipients.

Between 1970 and 1989 Tanzania received about $9.5bn (£5.3bn) of foreign assistance. Aid workers from *Peking to Stockholm* poured fistfuls of money into the country to shore up an African experiment in alternative development. That development, articulated by former President Julius Nyerere, was expressed in one simple phrase: "Socialism and self-reliance".

But 20 years of "self-reliance" have made Tanzania more dependent on imports and foreign aid, currently running at just over $1bn a year, than almost any other country in sub-Saharan Africa.

And, apart from the leaps forward in literacy and the provision of rudimentary rural health services, there *is little to show for the massive* handouts of assistance.

Throughout the country clinics are critically short of the most essential drugs, such as penicillin and anti-malarials. Schools have no textbooks or furniture. Roads and railways have decayed almost beyond repair, phones hardly work at all. State-owned factories run at less than 20 per cent capacity and most buildings have had no lick of paint for two decades. Real per capita incomes declined by 15 per cent between 1976 and 1986.

"Giving money to Tanzania was like pouring water into a bucket full of holes," said one British aid official.

What went wrong? How *did* the darling of development workers turn into one of Africa's greatest economic disasters?

A large part of the answer lies in the government's wanton mismanagement of the economy. But poorly designed and implemented development projects combined with bad advice from donors also contributed to Tanzania's economic malaise. While Scandinavian aid workers and Tanzanian officials patted each other on the back at cocktail parties Tanzania's peasants got poorer.

"Tanzania came to symbolise our hopes in Africa. We supported a *development policy we thought was* correct and which appealed to the philosophy of our own country," said Mr Anders Oljelund, the Swedish ambassador. "But it was not successful. Sweden and others helped to drag Tanzania into the crisis."

When talking about the failures of foreign assistance African finance ministers habitually complain that 20-30 per cent of all aid is given in "technical assistance" – a euphemism for millions of dollars loaned or given to African governments to bankroll huge salaries paid to expatriate "experts". There are an estimated 80,000 foreign aid workers, or "lords of poverty" as one author recently described them, on the continent who live champagne lifestyles on six-figure tax-free incomes. In many countries expatriates have become a parallel economy, to the extent that in Tanzania the 500 shilling note is nicknamed the "Pajero", after the $20,000 Mitsubishi four-wheel-drive vehicle that few Africans can afford. In Kenya the 500 shilling note is known as *mzungu*, or white man.

Much of aid given to Africa, particularly by the British, Japanese and French, is also tied to the donor countries exports and contractors. An average telephone system in Africa will have several mismatch*ing, technologically sophisticated* foreign systems overlaid one on top of each other. In Tanzania, many of the state-owned farms are littered with the wrecks of at least six different types of tractors from Valmet to Ford and Fiat, many of which are immobilised because of shortages of simple spare parts such as bearings and tyres.

But perhaps the greatest failures of foreign aid in Tanzania has been in the design of projects.

One such project in Tanzania was the Morogoro Shoe Factory, sponsored by the World Bank. At the cost of $15m, with an installed capacity of 4m pairs of shoes a year, the bank built one of the largest shoe factories in the world in a country with one of the poorest management records on the continent. Ninety per cent of production was slated for export. At the peak of its production it operated at 7 per cent capacity, but the quality of the shoes was so poor that it was even difficult to flog them on the local market.

> 'Giving money to Tanzania was like pouring water into a bucket full of holes'

According to one world banker it is "a good, albeit extreme example, of an ill-conceived industrial strategy combined with very poor design". It was, he says, "a hit and run type of project".

The problems at Morogoro serve as a metaphor for development in Africa. The factory was never built to specification and some of the machinery never worked. There was no system of incentives or penalties built into the contract about post-construction operation. With average shoe factories in Europe producing 1-1.5m pairs of shoes, the size of Morogoro was naive and over-optimistic. Insufficient attention was paid to markets and to Tanzania's macro-economic environment. Even if demand from Europe had been high, Tanzania's severely over-valued currency would have discouraged exports. The quality of the hides and skins supplied to the factory was poor. And, finally, Tanzania lacked the management skills to run the factory.

Today the Morogoro Shoe Factory is kept going on vast government subsides and so far no plan has been drawn up to do the obvious: close it down.

Another classic development project in Tanzania is the Mbegani Fisheries Development Centre, sponsored by the Norwegian Agency for International Development to the tune of more than NKr100m (£9m) over the last 15 years. Originally it was designed as a training centre to develop a commercial industrial fisheries, based on modern trawlers, fish processing and refrigeration technology. Norad's internal documents universally describe it as a complete flop.

After a few years it was realised that a high-tech fishing industry in Tanzania was a *pipedream.* Efforts to re-orient the project to the local fishermen was also a failure because of donor ignorance about the needs and problems facing the traditional fishing sector and about the fish resources in coastal and inland waters. Tanzanian fishermen proved immune to the irrelevant and sophisticated ideas cooked up for them in Oslo.

That many of these hare-brained schemes could have continued in the face of disaster is, according to one world banker, a testament to the fact that "many aid workers' jobs depend on continuing to dole out money for bad projects".

While the history of aid to Tanzania is damning, some lessons do appear to have been learnt from the $9.5bn experiment. The first is that all donors are now insisting on a maintenance provision for projects. The second is that there is a widespread recognition that without a sensible macro-economic and *trade* framework – which provides incentives and allows the market a role in *allocating* resources – *development* will be elusive.

Joe Matsau, Managing Director of the Lesotho Electrical Company, is bringing energy to the villages of his country.

Joe Matsau is bringing electricity to "The Kingdom in the Sky".

The de-forestation of some parts of Africa has been a matter of survival, not profit. In the mountainous kingdom of Lesotho, generations of villagers have had to live off the land for fuel to cook and heat their homes.

Joe Matsau of the Lesotho Electrical Company has a promising alternative. He is directing a long-term rural electrification programme which will make his country energy self-sufficient.

Hydro-electric power is the key, with transmission lines reaching up to over 2,000 meters into the "Kingdom in the Sky", as it is known locally. Village by village, Lesotho is switching dependency from the earth's fragile resources to the fruits of man's ingenuity.

"We still have a long way to go", says Mr. Matsau, "but the programme would never have seen the light of day without ABB's help – not just their technology, but their skill in identifying crucial aid and loan sources for us."

"The world is changing fast. To catch up, we have to change even faster. And, thanks to ABB, we're doing just that."

ABB is a world leader in electrical engineering, committed to the development of new and better ways of generating power, getting it to where it is needed, and using it efficiently.

ABB Asea Brown Boveri Ltd
Reader Services Centre
P.O. Box 822
CH-8021 Zürich/Switzerland

ABB
ASEA BROWN BOVERI

THE HOUSTON SUMMIT

EC SEEKS POLITICAL IMPETUS FROM SUMMIT

Europe spearheads drive for action on emissions

By Peter Norman in Houston

THE EUROPEAN Community yesterday stepped up pressure on the US to set targets for reducing its emissions of carbon dioxide and other greenhouse gases.

As the world economic summit in Houston entered its second day it became clear that the leaders of the four European Community countries and the European Commission would stress the importance of action to prevent global warming.

The EC wants a commitment to targets for reducing carbon dioxide emissions and for the summit to give political impetus for action to save the world's rain forests.

Mr Laurens Jan Brinkhorst, the EC Commission's director general for energy, warned that industrial countries needed to cut carbon dioxide emissions by 60 per cent if they were to stabilise levels of carbon dioxide in the atmosphere.

He made clear that the US – which emits 26 per cent of world carbon dioxide, or twice the European Community level – had a significant role to play in cutting the output of greenhouse gases.

The EC leaders from Britain, West Germany, France and Italy fear that without a lead from the summit on reducing greenhouse gas emissions, the world's big democracies would be unable to persuade developing countries to follow their lead.

Helmut Kohl: considering deal on communiqué

The US has argued that more scientific study of the greenhouse problem must be undertaken before it commits itself to targets for greenhouse emissions.

However, yesterday Mr Brinkhorst underlined that it was the European view that scientific facts about global warming were undisputed.

According to Mr Brinkhorst, work prepared for a world climate conference in November had shown emissions of carbon dioxide had risen by 30 per cent since the onset of the industrial era. Study of the Greenland icecap had also shown a correlation between increased output of carbon dioxide and higher temperatures over the last 100,000 years.

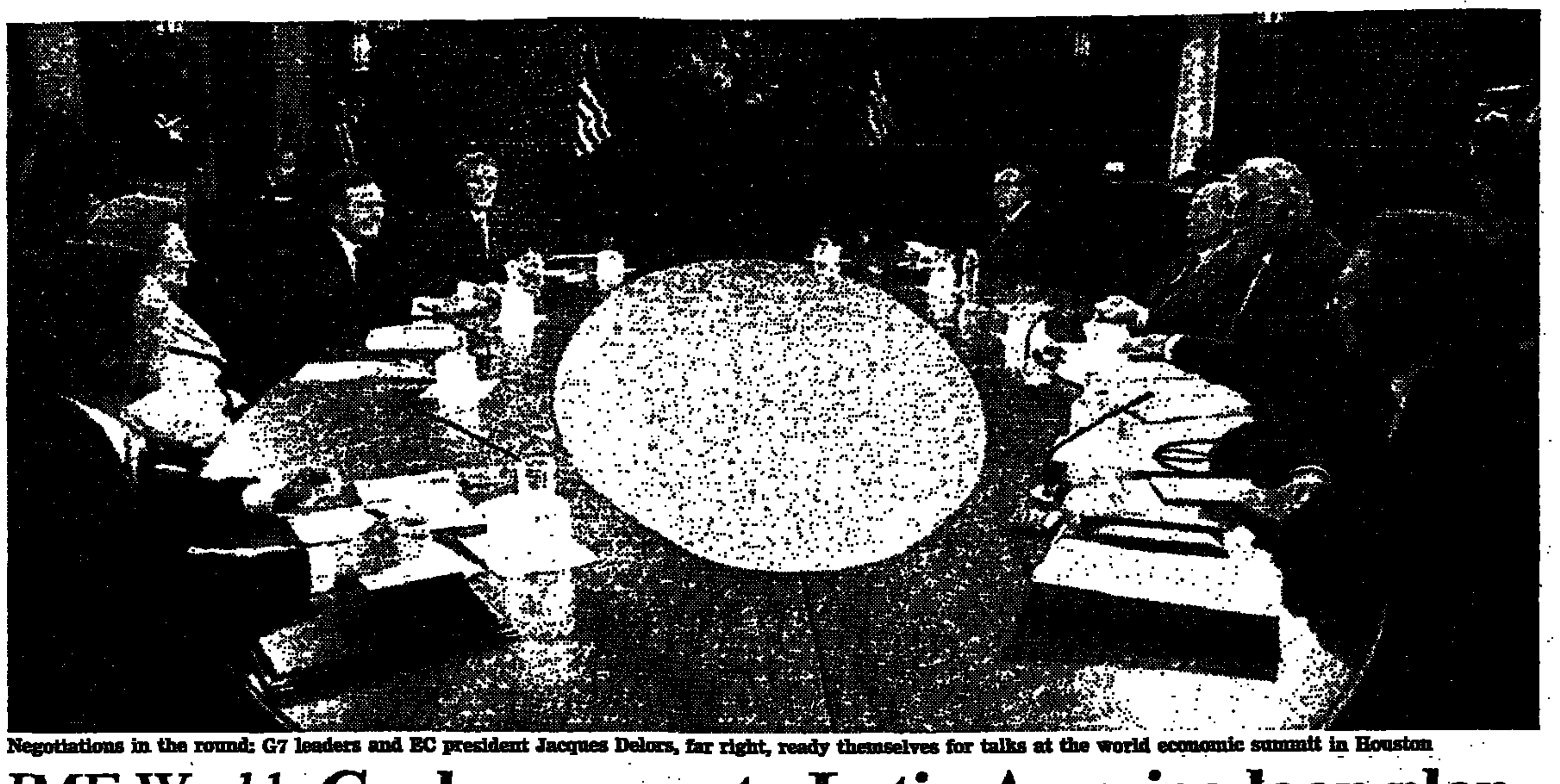
However, the US has argued that most of the output of carbon dioxide into the atmosphere results from natural causes. According to Mr John Sununu, the White House chief of staff, only 4 per cent of the total annual output of carbon dioxide can be attributed to man-made sources.

In a briefing to journalists Mr Sununu also disclosed significant economic reasons for the US to take a hesitant stance on carbon dioxide emissions. He pointed out that the US generated the bulk of its electricity by coal and, because of its size, it also produced more greenhouse gases from lorries and cars.

However, European officials said it was still vitally important to set a target for emissions, if only because democratisation and liberalisation of eastern Europe and parts of the developing world was likely to lead to a big increase in individual car ownership.

Sources at the meeting said the US was trying to persuade the other participants to hold out a specific commitment on global warming from their final communiqué in return for including a call for action to halt the depletion of tropical rain forests.

A German official said West German Chancellor Helmut Kohl might be willing to consider such a deal.



Negotiations in the round: G7 leaders and EC president Jacques Delors, far right, ready themselves for talks at the world economic summit in Houston

US, Soviet trade 'set to surge'

TRADE between the US and the Soviet Union is likely to boom over the next few years as the two countries work towards stronger economic ties, Mr Robert Mosbacher, US Commerce Secretary, said, Reuter reports from Houston.

Claiming that trade, not aid, was the best way to help the battered Soviet economy, Mr Mosbacher predicted annual increases of 25 per cent or more on that front. "Over the next few years, that's a doubling [of trade]," he said.

Trade between the former Cold War adversaries now runs at about $3bn (£1.67bn) a year. After factoring out the effects of inflation, bilateral trade is smaller than it was in the early 19th century, when the two countries first began dealing with each other.

Mr Mosbacher said that US companies ranging from International Business Machines, the computer group, to film and theatre concerns were interested in or already conducting business in the Soviet Union. Some were even considering investing in real estate there, through acquisition of 99-year property leases.

Although the potential was tremendous, Mr Mosbacher said, some US companies had been discouraged from investment by difficulties the Soviet Union had had in paying bills on time. Moscow is behind on its payments to foreign suppliers and other companies by more than $2bn.

Robert Mosbacher: US investment discouraged

Mr Mosbacher said the US had taken up the issue with the Soviet Union on the companies' behalf.

US exports to the Soviet Union could be boosted later this year when the US Export-Import Bank is expected to start guaranteeing trade credits and extending project loans to Moscow, he said. Such a move was contingent on Soviet legislation allowing free emigration, and could be followed by more credit guarantees and loans from America's Overseas Private Investment Corporation.

US President George Bush has ruled out direct aid to the Soviet Union now, but has left the door open for trade credits. The Commerce Department has signed an agreement with the Soviet Government for the exchange of commercial and other information.

Mr Mosbacher said the department was also advising Moscow on ways to improve its inefficient food distribution channels and was providing the country with other technical assistance.

"We're talking about a lot of different levels, with exchange of information, exchange of people," he said.

IMF-World Bank Soviet study plan

By Peter Riddell

THE US has proposed that the International Monetary Fund and World Bank should lead a study into the problems and needs of the Soviet economy.

The study would be parallel to the recently initiated EC inquiry into the Soviet economy, which is due to be finished by October. EC Commission president Jacques Delors is to lead a visit to Moscow next week by a high-level delegation.

The US Treasury has devised the idea of the IMF/Bank study separate from the EC one. However, there will be some overlap, since the EC inquiry will be reported back to the Group of 24 industrialised countries, which has been providing aid to eastern Europe, and which includes the US.

The IMF/Bank inquiry is expected to be on a longer-term basis than the EC one and will involve consultations with other multilateral institutions, including not only the EC but also the 24-nation Organisation for Economic Co-operation and Development and the European Bank for Reconstruction and Development, now being formed.

The wording of the section of the final communiqué referring to the study was still being worked on yesterday. The US wants the separate study to ensure that the EC is not the sole body involved in looking at the issue.

The US proposal reflects President George Bush's view that the Soviet Union should be provided with technical assistance in its transition to a market economy.

Cool response to Latin America loan plan

By Peter Riddell, US Editor, in Houston

SEVERAL finance ministers of the Group of Seven have voiced reservations about a recent US initiative to provide substantial relief on official loans to Latin America.

A British official said the UK was concerned about the implications for states other than those in Latin America, a reference to countries such as Egypt which have similar income levels to those in Latin America. He added that some ministers expressed reservations about "ring fencing" Latin America and were keen to ensure reasonably similar treatment for countries in a comparable economic and political position.

While welcoming many of the objectives of the US initiative, aimed at encouraging private sector development and free trade in Latin America, the British feel there needs to be further study and discussion.

The US side did not expect a decision on its plan to be taken at Houston. US officials said the aim was always to use the summit to provide more details to other countries. This had been done.

Discussions among foreign ministers in Houston will, as intended, be followed by a more comprehensive official examination ahead of the autumn round of international finance meetings, scheduled for mid-to-late September.

A British official said that as US legislation was required for the initiative to be enacted it was unnecessary to take immediate decisions.

The US side reported a generally positive response to the plan.

EC eases stand over agricultural subsidies

By Peter Norman

THE European Community has eased its weekend resolve to fend off any change in its negotiating position on farm subsidies in the Uruguay Round of trade liberalisation talks.

As the Houston summit entered its second day yesterday, three of the EC's leading member states indicated a willingness to study a compromise formula.

West Germany, Britain and, with rather less enthusiasm, France suggested that recommendations advanced last month by Mr Aart de Zeeuw, the chairman of the agricultural trade negotiating group at the Uruguay Round talks in Geneva, might repay further study as a basis for negotiations.

Mr de Zeeuw's paper was an attempt to bridge EC and US positions on farm trade and so lift a negotiation deadlock.

The US and Canada, as efficient farm producers, have insisted the Uruguay Round agree on a programme to dismantle export subsidies, reduce internal farm support, and increase access in industrial country markets for products of leading agricultural producers.

The EC, in turn, has insisted it will not negotiate separately on the three elements of the US proposal. It has advocated taking an aggregate measure of farm support – the support measurement unit – as the basis of talks on reducing subsidies.

The de Zeeuw paper urges a rapid reduction of export subsidies as part of a lowering of farm-support levels. It bears some similarities to the US and Canadian positions on agriculture.

While Mr de Zeeuw's recommendations raised the hopes of a possible compromise that the summit leaders could adopt as a basis for negotiations in Geneva, the two main protagonists in the dispute chose to mark the beginning of talks here with a display of verbal pyrotechnics.

Mr Clayton Yeutter, the US Agriculture Secretary, castigated the European Community's reliance on export subsidies.

He said the EC spent $10bn (£5.58bn) a year to dump its unwanted farm production on the world market, making it impossible for Third World countries to compete. By contrast, the US spent just $500m on export subsidies.

Mr Yeutter warned that the EC position could jeopardise the Uruguay Round. He recalled that President George Bush had said no agreement in the Round would be better than a bad agreement.

And yet, Mr Yeutter added, the Round was "10 times more important for the world economy" than improved relations between the industrial countries and the Soviet Union.

His theme was taken up by Mrs Carla Hills, US Trade Representative. At stake in the Uruguay Round was a global "economic renaissance for the 21st century," she said.

Unless there was agreement the world would experience "dangerously decreased economic prosperity."

Mrs Hills warned that 40 mainly developing countries would walk out of the Round if the US relaxed its position on agriculture, but she suggested the recent recommendation of Mr de Zeeuw might serve as the basis for future negotiations.

It is possible the EC Commission's mandate for negotiating a cut in agricultural subsidies could be altered, as a result of the Houston summit.

But confirmation of this will have to await publication of the final economic declaration today.

As the summit started there was no sign the European Commission was prepared to accept the compromise paper. Mr Guy Legras, the Commission's director-general for agriculture, said it was the view that Uruguay Round negotiators should stick to what had already been agreed.

The EC had proposed a reduction of support and protection over five years.

However, it wanted to keep an element of flexibility to protect its farmers from unexpected events.

"We cannot apply free trade in agriculture as we do for industrial products," Mr Legras said.

OTHER AMERICAN NEWS

Chicago case blow to anti-fraud action

By Barbara Durr in Chicago

THE US government's case against fraud in the Chicago futures pits was dealt a serious blow late on Monday, when a federal jury was able to come to a verdict on just a fraction of the more than 100 criminal counts against one broker and two traders of Swiss francs at the Chicago Mercantile exchange.

After a complicated seven-week trial, and 11 days of deliberations, the jury found reason to convict the broker, Mr Robert Mosky, only on seven counts of violating the Commodity Exchange Act, and one trader, Mr Danny Scheck, of just one count of commodity law violation. The other trader, Mr David Zatz, was acquitted on two counts of commodity law violation.

Mr Mosky was, however, found not guilty on 20 other counts, and the jury could not reach a decision on far more serious charges of racketeering and conspiracy.

Because the jury was deadlocked on a total of 78 counts, most of which were related to mail and wire fraud, federal district court Judge Ann Williams declared a mistrial on those charges. This opens the door for the government prosecutors to re-try the defendants on the deadlocked counts, but it would appear that the case has lost considerable steam.

Defence attorneys said the government had failed to persuade the jury that a grand scheme to defraud customers existed in the Swiss franc pit. One said it would be "a travesty" to re-try the defendants.

The results in this trial are expected to affect the prosecuting of two approaching cases. In September, the government is scheduled to try 12 Japanese yen traders and brokers from the Chicago Mercantile Exchange, and 13 soya bean traders and brokers from the Chicago Board of Trade.

The trial just concluded, as well as those coming up, are the result of a two-year undercover FBI probe of wrong-doing at Chicago's two main futures exchanges, which led last year to indictments of 47 brokers and traders and one clerk.

Former high-flying stock speculator John Mulheren was found guilty yesterday on four counts of securities fraud for helping Ivan Boesky break securities laws in exchange for inside information, Reuter reports from New York.

Judge Miriam Cedarbaum sent jurors back to continue deliberations on 26 other charges on which they were deadlocked.

The jury began deliberating on June 29 after a seven-week trial.

Mr Mulheren, 40, formerly a chief trader at now-defunct investment firm Jamie Securities, had been charged with 30 counts of conspiracy, securities and mail fraud and keeping false records. The maximum sentence is five years in prison and a $250,000 fine on each of the counts.

Big Apple awaits Democratic big spenders

By Lionel Barber in Washington

THE Democrats have chosen Madison Square Garden, New York, as the site for the party's 1992 presidential convention.

The selection of New York over rival New Orleans could bring $100m (£55m) in extra spending into the city, according to Mayor David Dinkins, who played an important role in setting the convention.

New Orleans' chances faded in the last few days after the Louisiana legislature adopted the strictest anti-abortion law in the country, touching off fears among Democrats that their convention could be disrupted by anti-abortion protests.

New York hosted the Democratic convention in 1976 and 1980, and was the personal preference of Mr Ronald Brown, the new black party chairman. One of the Democratic Party's strongholds, it also serves as a political base for Governor Mario Cuomo, a Democrat long rumoured to harbour presidential ambitions.

In 1988, the Democrats deliberately sought to appeal to more conservative southern voters by holding their convention in Atlanta, Georgia. This time round, the party seems to have recognised that candidates rather than convention sites will matter most in 1992.

The Republicans have just begun their search for a convention site, with Houston among the cities seeking to play host. Others include San Diego, Cleveland, New Orleans, Miami, Anaheim, California and St Petersburg, Florida. New Orleans hosted the 1988 Republican convention.

Guatemala in Belize talks

GUATEMALAN President Vinicio Cerezo left yesterday for Honduras, where he is meeting his Belizean counterpart, Prime Minister George Price, for two days of talks, his office said, Reuter reports from Guatemala City.

The meeting in Roatan, off Honduras' Caribbean coast, is geared toward finding an "honourable agreement" to bilateral differences, spokeswoman Claudia Arenas said.

Cuban students in Czech embassy

TWO Cuban students seeking political asylum have entered the Czechoslovak embassy in Havana, joining five Cuban dissidents already sheltering there, an embassy spokesman said yesterday, Reuter reports from Havana.

The two students climbed over the embassy wall on Monday afternoon, minutes before police arrived, the spokesman said.

They joined five Cuban dissidents who had entered the embassy several hours earlier. The five had not asked for asylum but wanted to visit Europe, starting in Czechoslovakia, and then be allowed to return to Cuba without reprisals.

The embassy said earlier of the five dissidents: "They are asking for guarantees to be able to work and engage in politics." They were "opposition activists" who wanted the Czechoslovak government to protect them. Reporters were not allowed to see the five at the embassy.

A Cuban Foreign Ministry official told the Cuban news agency Prensa Latina that the government was ready to talk directly to the five but would not accept any mediation by the Czechoslovak embassy.

The Cuban official said the five wanted to travel to Czechoslovakia, East and West Germany and other countries "with the apparent objective of campaigning against the Cuban state". He did not elaborate.

Terrorist jail-break embarrasses Garcia

By Sally Bowen in Lima

THE outgoing government of Peruvian President Alan Garcia Perez has been seriously embarrassed by a spectacular jail-break by 48 prisoners held on terrorism charges. The escapees were all were members of the Tupac Amaru Revolutionary Movement (MRTA) and included their leader Victor Polay Campos.

The escape, early on Monday, from Lima's maximum security Cantogrande prison, was through a cleverly-engineered 250-metre tunnel leading from the MRTA cell block to a small nearby house.

The tunnel was entirely concrete-lined, with iron supports, some 10 metres deep and equipped with compressed-air ventilation and lighting. Police said its construction must have been the work of several months. MRTA sources say that the escape has been recorded on video, and will shortly be made available to the public.

Victor Polay Campos was arrested in February 1989 in the central Andean town of Huancayo. Under his nom-de-guerre "Camarada Rolando" he was the acknowledged leader of MRTA, Peru's second subversive group after Shining Path (Sendero Luminoso). A former classmate of President Garcia, Mr Polay has managed to continue his moral leadership of the movement from his prison cell, making pronouncements on policy and giving interviews.

MRTA is viewed rather more leniently in Peru than Shining Path, having generally relied less on brutal terrorist tactics and assassination, and instead favouring kidnapping and extortion via "revolutionary bonds" demanded from businesses.

In rural areas, MRTA bands sometimes assault food delivery lorries and distribute booty, Robin Hood-style, to the poor. Victor Polay has been campaigning strenuously for the past few weeks for the charges of terrorism he faces to be downgraded to "rebellion", which carries a maximum five-year prison term.

But for the past two years increasingly bitter rivalry has developed between MRTA and Shining Path, particularly in the coca-trafficking zone of the Hualllaga river valley. Shining Path holds sway in the south, while MRTA dominates the trading towns further north. There have been recent indications, such as the murder of former Defence Minister General Lopez Albujar in January this year, that a faction of MRTA was becoming more radicalised.

President Alan Garcia, while deploring the escape, said it should be seen in the perspective of a general advance in Peru's fight against terrorism. Five weeks ago, anti-terrorist police uncovered the Shining Path Lima headquarters and captured several major organisation figures as well as an extensive and informative archive.

President Garcia suggested that there must have been complicity on the part of some of the security police in charge of the prison.

He promised immediate investigation and full sanctions for all those involved.

A huge police operation was mounted in Lima on Monday and by dawn yesterday some 7,000 suspects had been rounded up.

Foreign companies under US tax spotlight

By Lionel Barber

THE US Internal Revenue Service is simply "outgunned" in its efforts to enforce tax compliance by US subsidiaries of foreign-owned companies, a congressional committee heard yesterday.

As a result, many of the growing number of foreign-owned companies have paid little or no federal income tax, according to an investigation by the House Ways and Means oversight sub-committee.

The congressional hearings are certain to strike a nerve as budget talks resume this week. Lawmakers are looking for any new sources of revenue to reduce the deficit; more broadly, they are doubly sensitive these days to any charge of foreigners stealing a competitive advantage over US corporations.

Over the next week the sub-committee will hear new IRS figures which show that, in 1987, foreign companies paid taxes on less than 1 per cent of their gross receipts, well below the tax levels paid by domestic US companies.

The new study, prepared by Mr Fred Goldberg, IRS commissioner, reveals that while sales of Japanese-owned companies rose nearly 50 per cent in 1987, the reported income on which they paid taxes dropped by two-thirds.

Congressman J.J. Pickle of Texas, who chairs the committee, said his staff had found that "some of the [36] companies investigated have been operating in the US for years and have never paid Uncle Sam a thin dime in corporate income taxes."

Mr Pickle said one way to avoid the IRS net was for the foreign parent to overcharge its US subsidiary for goods and services – thereby reducing the subsidiary's taxable income. Products under suspicion included cars, motorcycles, stereos, televisions, video cassette recorders, microwaves and other consumer products.

Many of these products are Japanese in origin, but staff stress that they have no intention of "Japan-bashing", only of tracking actual and potential short falls in corporate income tax.

Two influential Democratic congressmen, Dan Rostenkowski and Richard Gephardt, have already introduced bills to strengthen IRS enforcement powers and for the first time subject foreigners to a capital gains tax when they sell stock of US companies.

These moves – along with other measures to tighten scrutiny if not control of foreign investment – have gathered force in recent months as a result of the continuing high US budget and trade deficits.

As Mr Duncan Hunter, a Californian Republican, said this week: "We want the taxes that foreign companies owe the US, before we ask the American people for one cent."

UK NEWS

Private groups back plan for UK's first toll road

By Richard Tomkins, Transport Correspondent

PLANS were announced yesterday for Britain's first toll road connecting Birmingham, the country's second largest city, and Manchester in the north west.

Four groups have put forward preliminary proposals for a 80-mile privately-funded link. If one of the proposals ultimately succeeds, it will result in new road capacity being built by the private sector between the two cities in the existing corridor of the M6 motorway.

The four groups are Tarmac; Balfour Beatty, a subsidiary of the BICC cables and construction group; Trafalgar House, the construction group, in conjunction with Italstat, the Italian toll road group; and the Western Parkway Consortium led by Manufacturers Hanover, the US bank, and Cofiroute, the French toll road group.

In addition, W.S. Atkins Consultants, the engineering consultants, and Mitsubishi Bank of Japan have separately expressed an interest in participating in the scheme.

Details of the proposals have not been released by the Department of Transport and most of the parties involved were keeping their plans under wraps yesterday.

But Tarmac, the Wolverhampton-based construction group, said it had suggested building extra, privately-funded lanes alongside the existing motorway rather than a separate new road.

The company said it did not believe traffic demand would justify the building of a toll motorway between the two cities, but it considered the construction of separate fee-paying lanes would be viable.

Such a move, which would be unprecendented in Britain, would give rise to "executive" lanes in which people who wanted a faster journey along the motorway could obtain it if they were prepared to pay.

Under Tarmac's proposal, the Government's own plans for widening the M6 would be abandoned and the Department of Transport would be able to reallocate its funds to other projects.

The invitation for bids to design, build, finance and operate new road capacity in the M6 corridor was made by Mr Cecil Parkinson, the Transport Secretary, as part of a package of new initiatives for privately-funded roads.

Many of the respondents are also bidding to build a privately-funded Birmingham northern relief road, for which tenders were invited in the same package.

The positive response may help concern that private sector enthusiasm for public infrastructure projects was in danger of having been dampened by last month's decision over the Channel tunnel rail link.

That decision effectively ousted the private sector from plans to build a high-speed link between London and the tunnel and put the project back with the state-owned British Rail.

England's David Platt celebrates a World Cup goal against Cameroon in Naples

Lifting of European ban offers rich rewards to English soccer

By Jimmy Burns

HOT on the heals of an honourable performance by the national team in the World Cup in Italy, English First Division Football is preparing to reap further substantial financial rewards from a return to Europe.

Yesterday's decision by UEFA - European soccer's ruling body - to lift a five year ban on English clubs travelling to Europe, with the exception of Liverpool, could mean that two of them alone, Aston Villa and Manchester United will together earn over £3m in additional revenue.

The ban was imposed in 1985 after 39 supporters of the Italian club Juventus died during disturbances involving Liverpool fans at the European Cup Final in the Heysel Stadium, in Brussels.

Aston Villa, based in Birmingham, and Manchester United, are the teams to have qualified for two major European tournaments next season: the UEFA Cup and the European Cup Winners Cup, although UK officials predict a more widespread revival in the fortunes of British football.

Of the two English clubs now with European passports, Aston Villa is the smallest, the least known internationally, and thus the one possibly which has the most to gain although officials from both clubs were equally overjoyed.

Mr Abdul Rashid, Aston Villa's commercial manager was yesterday understandably ecstatic. According to his sums, the club stands to make over £1m if it reaches the semi-final, and well over £1.5m if it wins the cup. The figures assume that the club will play to a capacity crowds of 42,000 people from the outset of the competition. This brings in £50,000 in receipts per game.

He hopes that Aston Villa will be drawn to play a Spanish or Italian Club rather than a Finnish one because the Latins are greater crowd pullers.

However the days when football depended only the gate for its revenue have long gone. Mr Rashid looks forward to substantial additional revenue from a complex combination of commercial enterprise.

This includes 'corporate hospitality', businessmen wining and dining their clients in a special section of the stadium, and 'grand advertising' in the form of giant hoardings, and TV rights.

According to Mr Rashid, within minutes of yesterday's announcement business sponsors were lining up to offer their good services to his club.

During the 1988/90 season, five Scottish football clubs earned £1.3m from European competitions, although only two of them reached the quarter finals.

UK officials believe that local football, with the exception of the financially-strapped smaller clubs, is now riding a high following the World Cup. In Italy supporters behaved themselves better than forecast inside stadiums and the England side captured the imagination of the sporting, and non-sporting, public.

It all makes a change from earlier this year when the Chancellor of the Exchequer Mr John Major remarked in his Budget speech that many English clubs "are in a very weak financial position and only a handful are profitable."

After the Army: a view beyond the Rhine

Jimmy Burns talks to officers leaving the service in an improved east-west climate

IF Lawrence Wettern was still commanding a troop of British tanks in West Germany he might be worried about his future in the army.

Tanks fall into one of the sectors likely to be withdrawn and remodelled under a far-reaching review of British forces in Europe following the dramatic changes in east-west relations.

Mr Wettern took his decision to leave long before the Berlin Wall came down or Westminster started debating the value of the so-called "peace dividend" – the savings made by cuts in military spending.

Many army officers like former Capt Wettern expect the brunt of the cuts to fall on the concentration of troops and equipment in the British Army of the Rhine.

He is typical of a growing number of army officers who are cutting their army careers short rather than await the outcome of the current review with its inevitable cuts.

Defence experts estimate that Britain's armed forces are now losing 6,000 more people than they recruit annually.

Mr Wettern, at the age of 28, has turned to invention in civilian life by marketing, initially in Britain, an appliance to make wine breathe, with plans to set up a production line in Eastern Europe.

Wettern, who was trained as an army engineer, believes the complete turn-around in his professional life has been driven by a combination of circumstances: partly the realisation that at his age and with his Cambridge university background he could be earning more money; partly his engagement to a woman who saw no professional future for herself as an army wife; but perhaps most importantly, a sense of disillusionment with an army that appears to be losing its *raison d'etre*.

"When I joined, the army was a lot of fun but then in Germany I had soldiers turning round and saying to me: we're wasting our time. I left partly because of frustration, a view that there wasn't much future in staying", recalls Wettern.

In the light of developments in Eastern Europe, the armed forces' whole structure is being reassessed by the Government.

Defence experts estimate that Britain's armed forces are now losing 6,000 more people than they recruit annually.

Not all those leaving the army are choosing such idiosyncratic careers as Wettern. Nor is everyone finding it as easy to adapt to civilian life at a time when the City and industry, the two traditional poles of attraction for departing young officers, are becoming more selective in their recruitment.

Tim Curtis is another ex-army captain. Like Wettern, he found that army life had gradually lost the excitement and sense of purpose he identified when he first joined.

"I didn't believe that what we were doing in Germany was credible or realistic. It was different five years ago when in order to get on in the army, one had to go to Germany."

Problems of adaptation for Curtis, a former bomb disposal expert and parachutist, are manifest at the firm of management consultants in the West End where he now works analysing company assets on a computer.

He insists on defying the air-conditioning and opening windows in the office and on taking his lunch breaks in a nearby park because he misses the fresh air and exercise of army life.

His current salary of £20,000 is only a slight improvement on what he was earning as a captain, and without any of the additional perks such as free accommodation and travel which accompany employment in the army.

Nevertheless Curtis considers himself lucky that he has got a job in business and not in the more easily accessible sectors like defence-related industries.

Before getting his present job, he spent several months looking with limited success for employment outside the army. He failed a series of interviews with banks and management consultancy firms before succeeding with his present job.

"In order to get the job I felt I had to market myself not as an ex-officer but as a Cambridge graduate," said Curtis who has a degree in international relations.

Resignations from the army are increasingly extending beyond graduates on short term commissions to longer-serving officers who are leaving before retirement age.

Brian Mills, a former major, left the army in April after serving for twenty-nine years in the Royal Ordinance Corps. He served in Aden, Northern Ireland, and West Germany.

"I liked Germany but it was not a good place to find oneself in the latter stages of one's career, " says Mills.

By contrast with Mr Curtis, he used his logistics background in looking for a job and took him eight months of failed interviews before he eventually found one.

Like other officers of his rank and experience he eventually used a network of contacts with the Ministry of Defence to secure employment in the overseas division of Morfax, an arms company which produces remote bomb-defusing devices known as Wheelbarrow.

British ministers argue publicly that they are not contemplating major manpower cuts in the armed forces but rather a radical restructuring to make them more responsive to changing political changes. In other words, new roles will be found for officers who have lost a sense of purpose in postings like Germany.

But, according to Mr Barry Hone, Director of Employment at the Officers Association, a charity which serves as the main employment consultancy service for ex-officers, the prospect of masses of ex-officers entering the civilian market with increasingly limited prospects of securing a job, is not one that easily be dismissed.

Mr Hone says: "Not since 1945 have potentially such a large number of officers threatened to abandon their army careers. The difference is that there was more cause for hope and it was easier to get a job after the war."

The Association prides itself in the track-record which its staff has in getting a wide selection of civilian appointments for the more than 600 officers it annually has on its employment register.

Among its most prided recent appointments is that of a 52 year old army officer as a director with a company of International Auctioneers on an annual salary of £60,000. Other recent appointments include a public school bursar, trade association director, and a field supply officer within the aerospace industry.

Mr Hone, however, is insistent that success could easily turn to crisis if an exodus of British servicemen from Germany takes place without the Government adopting a more interventionist role in the labour market.

"The danger is that if the army kicks out 40,000 men I could have up to 2,000 officers on my books and there just wouldn't be enough jobs to give them... The Government has to make sure that a trickle doesn't turn into a flood."

UK NEWS

Newspaper prints litigation details against Credit Suisse First Boston

Gulf Consolidated admits contempt

By John Authers

GULF Consolidated Services for Industry, the Panama-based offshore international investment company, admitted contempt of court in the High Court yesterday, after confidential information intended to be used in its litigation against Credit Suisse First Boston, the London-based credit bank controlled by Credit Suisse, was published in a Bahrain newspaper.

At the same hearing, two officials of Jawad Habib & Co, the Bahrain firm of accountants employed to liquidate Gulf Consolidated, denied that by talking to journalists and circulating a report on Gulf Consolidated they aided and abetted contempt.

Mr Justice Potter is expected to pass judgment this morning.

Last year Gulf Consolidated claimed compensation following its incorporation and flotation on the Bahrain Stock Exchange in 1980, which CSFB organised. CSFB denies the allegations, which concern a $40m (£22.22m) deposit which Gulf Consolidated claims to have paid them.

Mr Michael Crystal QC, representing the bank, told the court that in December last year CSFB provided a list of documents, including a copy of an agreement it had made with Al-Ahli Commercial Bank, to Lovell White Durrant, solicitors for Gulf Consolidated.

In March, Mr Ruttonsha, a partner of Jawal Habib, produced a report for the Minister of Commerce and Agriculture in Bahrain. This referred to the agreement with Al-Ahli. Copies were sent to about 50 shareholders. Two stories including information from the report appeared in the Asharq Al-Awsat newspaper in Bahrain in April. Mr Habib, the senior partner, discovered that the author had obtained a copy of the report.

On April 23, CSFB provided Lovell White Durrant with more documents, including a confidential report by the group internal auditor. A few days later, Mr Ruttonsha said, he told Mr Habib that 32 members of staff of CSFB had subscribed for shares in Gulf Consolidated. *This allegation* formed part of the CSFB report.

Mr Crystal claimed it was "reckless" and "cavalier" of Mr Ruttonsha not to warn his colleague that the CSFB information was confidential, and that it should only be used as part of the litigation.

Mr Ruttonsha replied that he would not describe it as cavalier, although he would call it a mistake, for which he apologised.

In the course of the two-day hearing, Mr Habib said that on May 7, he had spoken to a journalist who worked for Asharq Al-Awsat. He told Mr Crystal he was only asked one question about CSFB, in answer to which he mentioned the alleged shareholdings. He said that this was mistaken, although he did not consider it reckless.

Four days later the information appeared in an article in Asharq Al-Awsat. In June, Gulf Consolidated admitted that it had broken the implied undertaking not to use the documents supplied by CSFB for any purpose other than the litigation, and apologised without reservation.

Americans prospect for UK gold

Raymond Snoddy looks at the rush for cable television franchises

MR Tony DiStefano, worldwide president for cable television of Pacific Telesis, the $10bn-a-year San Francisco-based telephone company, makes it sound like a gold rush.

"This is where the action is," he says from his Piccadilly office in central London.

The action he is talking about is the remarkable rush for cable television franchises in the UK, a process that reaches its finale today when the Cable Authority awards its final three franchises, covering the areas of Newport, in Wales, and the Wirral and Macclesfield, in the north-west.

As with most of the recent cable franchises the contenders include large Northern American telephone companies and large North American cable television operators.

American investors make up a majority of all applicants for the last three franchises.

The end of the Cable Authority franchising means that two thirds of the country - 14.6m homes - will be covered by 135 separate franchises involving an investment, if all the networks are built, of more than £4bn ($7.16bn).

If cable does take off significantly in the UK it will largely be an American achievement. North American companies account for an estimated 90 per cent of the industry.

"There has been very little British investment," says Mr Jon Davey, director general of the Cable Authority, which will be rolled up into the new Independent Television Commission by the end of this year.

Mr Davey is convinced, however, that cable's time has come and a lot of serious money will be spent on building networks.

Mr DiStefano's company, Pactel, is involved in 13 franchises covering 1.6m homes, including more than 600,000 in a linked stretch in the east London area.

Pactel, whose main partner is Jones Intercable of the US, expects to invest around £250m ($447.50m) over the next four or five years. Mr DiStefano says British cable "is one of the most attractive investment opportunities anywhere in the world."

His optimism is matched by other US phone companies such as US West, probably the largest single entity in the business, Southwestern Bell, and Nynex, the telephone company for New York and New England.

Apart from providing cable television programmes the American phone companies are looking at cable as a way of offering local telephone services in competition with British Telecom, which has been gradually withdrawing from the cable industry.

They also hope, one day, to put their British experience to good use in the US where, at the moment, they cannot own cable television networks.

Apart from telephone companies the main players include United Artists, with interests in seven franchises covering 1.4m homes and a significant programme provider, and Maclean Hunter of Canada.

To an outsider the extent and depth of the North American interest seems extraordinary given the modest achievements of the cable television industry so far.

At one stage last year, only nine of the modern multi-channel franchises were operating. That number has, however, grown to 22 and the Cable Authority expects the latest, Nottingham in the Midlands, to switch on this month.

The encouraging signs are starting to pile up. Mr Jim Dovey, chief executive of United Artists International has signed up 24,424 subscribers in its London South system.

Mr DiStefano says rates of between 25 and 30 per cent are being seen in new franchises such as Bolton, in Lancashire, and Norwich, in East Anglia.

The most important reason for the growing optimism is paradoxically satellite television which looks at first glance to be a competitor.

The arrival of Mr Rupert Murdoch's Sky Television and British Satellite Broadcasting has greatly increased the attractiveness of cable programming, particularly the Sky and BSB movie channels.

In addition cable networks can offer both rival satellite systems without the need for incompatible dishes and Squarials stuck on roofs.

Mr DiStefano is, however, under no illusions. He expects to wait two to three years before breakeven and 8-10 years to pay back the investment.

"We are in the business of digging holes and burying money in them," he says.

BRITAIN IN BRIEF

Sun of US picks UK supplier

Sun Microsystems, one of the most successful US-based small computer manufacturers, will source the printed circuit boards for machines to be built at its new Linlithgow, Scotland, site from ICL, the STC information technology subsidiary.

ICL will be the only European source for the boards which will be manufactured at its Kidsgrove plant in the English Midlands. The contract, which will run for two years in the first instance, will be worth £20m a year to ICL.

Sun, which turned over $1.76bn last year, manufactures computers in California and New England in the US and in Scotland for the European market.

Approval for London rail hub

An all-party committee of MPs cleared the way for British Rail to go ahead with the construction of a £1bn low-level station and international rail terminal at King's Cross in London.

The decision removes a significant hurdle to the planned £6bn commercial redevelopment of derelict railway land to the north of King's Cross, said to be the biggest inner city regeneration project in Europe.

But it was accompanied by a severe castigation of BR for the way it promoted the King's Cross Railways Bill, accusing it of improper tactics that verged on contempt of the House.

British Rail also came under fire yesterday for its advertising campaigns from the Advertising Standards Authority, a regulatory body monitoring the public's reaction to advertising. The complaints said that "based on their own experiences" the benefits of rail travel had been "exaggerated".

B&C sells shares

British & Commonwealth's 40 per cent stake in London Forfaiting, the trade finance group, was sold in the market yesterday for £28m or 70p a share in the biggest disposal to date by the collapsed financial services group's administrators.

The sale lifts to some £38m the sum raised so far from B&C assets. Administrators were called in at four B&C companies in early June.

Scargill under pressure

MR Arthur Scargill, president of the National Union of Mineworkers, was asked by Mr Norman Willis, general secretary of the Trades Union Congress, to explain if he had misled Mr Willis in 1984 by telling him that the NUM had not sought or received funds from Libya.

In October 1984, Mr Willis said he had been given "a categorical assurance" by Mr Scargill that no funds were being sought or received from Libya. Mr Roger Windsor, the former NUM chief executive, had just visited Libya.

Mr Scargill said the 1984 statement was issued by Mr Willis: it was not jointly agreed and "it was certainly not issued by me."

Bankers study Ecu proposals

British proposals for an evolutionary approach to European monetary union using a "hard-ecu" were discussed by European central bankers and found "to be consistent with the final objective of a European monetary union based on a single currency and common decision making", according to Mr Karl Otto Pohl, president of the German Bundesbank.

The UK proposals will remain on the table until the autumn as the EC central bankers decided to refer them to their Committee of Alternate Governors for further examination.

Public transport outlook 'bleak'

Users of London's public transport had a "difficult and depressing year" in the period ending March 1990 and the outlook is for a bleaker year still, according to the capital's independent statutory transport watchdog.

The London Regional Passengers Committee highlights overcrowding on London Underground and an "appalling" service on British Rail's Liverpool Street to Cambridge line.

Canadian mill near Glasgow

Abitibi-Price, the Canadian forest products company, is expected to announce the go-ahead of a project to build a large newsprint mill at Gartcosh near Glasgow.

The project is to build a mill with the capacity to produce 205,000 tonnes of newsprint a year, directly employing more than 200 people. The figure of £180m was last year quoted as the cost of the scheme, which would take two years to complete.

BZW dismiss fund manager

Barclays de Zoete Wedd Investment Management dismissed a senior fund manager for breaching its personal account dealing rules.

An official confirmed that Mr Roland Cross, a specialist UK equities manager, had been dismissed following an internal investigation. The official stressed that no evidence had been found that client portfolios had been mis-used or damaged.

Tourist boom in Scotland

Tourism now supports 180,000 full-time jobs and generates £1.8 billion a year for the Scottish economy with the Japanese prominent among new enthusiasts, according to the annual report of the Scottish Tourist Board.

Overseas visitors spent £420 million, a rise of 10%, with Americans, Canadians, Germans and French tourists being joined increasingly by visitors from Japan, Italy and Spain.

Inquiry into Dartmoor riot begins

Security officers at Dartmoor prison (above) had 27 reports of an impending disturbance in the days before a riot broke out there, the Woolf inquiry was told. Speaking in Taunton, Somerset on the second day of the inquiry, Mr Mawson, chairman of Dartmoor's Prison Officers' Association, said that prison staff were informed and police put on standby, but no extra staff were brought in over the weekend of April 7-8 when the trouble began. Lord Justice Woolf and his team of assessors are investigating the April riots at Strangeways, Manchester, and other prisons. Damage totalling more than £2.5m was caused to those prisons in outbreaks of violence that varied from a few hours at Cardiff to a weekend at Dartmoor.

UK NEWS

THE STRENGTH OF STERLING

Fear and greed maintain uneasy balance

By Andrew Marshall and Rachel Johnson

STERLING'S appreciation represents an uneasy balance, market analysts believe, between fear and greed, two of the most powerful and de-stabilising forces in financial markets. It is still not clear which will win.

Greed has helped to keep the currency moving up. Investors have been buying and selling sterling to make a quick profit as its value rises, confident that it is a "one-way bet," according to Mr Jim O'Neill, a currency analyst at Swiss Bank Corporation.

A sell-off started at DM2.95 last week. But sterling continued to rise, as so-called "white sock" traders – dealing on a more speculative basis – have come into the market to take advantage of sterling volatility in short-term deals. This is driving sterling higher as long as there are more net holders of sterling than profit-takers.

Traders are reporting that investors have been limiting their activity almost exclusively to the high-yielding currencies, chiefly sterling, while other currencies – the D-Mark, yen and dollar – have been dull and unprofitable.

But fear is also preventing currency dealers from calling a halt to the pound's precipitate climb, in the absence of a clear signal from the authorities.

Traders need a healthy degree of currency volatility to make money. But the absence of any monetary intervention by the authorities is causing concern to currency strategists, who abhor advising traders in an apparent policy vacuum.

The markets are therefore waiting for a signal from the authorities that sterling has risen far enough – a signal that could scuttle the pound.

"I don't even think this is a deliberate no-policy situation," says Mr O'Neill. "Sterling is being manipulated for political gain. The whole thing is frightening for the people in the UK."

Staff at work in a London foreign exchange dealing room

Mr Peter Spencer, UK economist at Shearson Lehman Hutton, is similarly convinced that the pound is being "talked up," both to tighten monetary policy at home without raising interest rates further, and to get it to the optimum level for insertion into the exchange rate mechanism of the European Monetary System.

There is little understanding in the markets, however, about what is the optimum level for sterling. "The current dynamics will push sterling higher until it reaches a level the Treasury wants, such as DM3. Then the market will push it to DM3.05," Mr Spencer says.

Mr Robin Aspinall of Hoare Govett says that on the basis of technical analysis, assuming that sterling breaches current levels, the next target is DM3.15.

The markets are not expecting the authorities to allow money rates to soften, sell sterling, or talk the pound down. The higher the pound, the more room for manoeuvre the Treasury has to enter the ERM and settle sterling in its chosen bands.

Concerns about the pound's strength come partly from its economic effects on UK competitiveness, and partly from fears about where the money has been going. It has been notable that even though the pound has been soaring, funds have not been pouring into gilts or equities to the same extent.

The natural supposition is that it is going into short-term sterling instruments. The money markets have seen the creation of pools of liquidity, pushing down short-term interest rates and requiring firm action from the Bank of England to keep rates propped up. This "hot money" can come and go quickly: "They're enjoying the party, but they're dancing near the door," as currency traders say.

Buying has been from many different sources, but traders point to large purchases from the Middle East and Asia.

There has also been an unwinding of sterling covering positions by institutions no longer concerned that they may be burned by a sliding pound, and now afraid they will be caught out as the currency tests new highs.

"Nobody's taking out new cover," says Mr Aspinall. He estimates that the unwinding of existing positions is only half-finished.

In the process of prematurely celebrating ERM entry, sterling has seemingly exorcised the ghost of Mr Nigel Lawson. It has burst through the levels last seen when the former Chancellor resigned last year.

Market traders now seem convinced that entry to the ERM – the issue which precipitated Mr Lawson's acrimonious exit from 11 Downing Street – has been resolved.

But there is another ghost which must be exorcised before sterling trade can settle down: the spectre of Sir Alan Walters, Mrs Thatcher's former policy adviser, who clashed repeatedly with Mr Lawson and who resigned at the same time.

Sir Alan argues that ERM entry, far from providing the stability which its advocates claim, would be the source of large swings in the pound and in short-term interest rates.

Mr Aspinall believes that sterling's volatility, and the effect this has had on money markets, may be a harbinger of things to come. Like many economists in the City, he is not convinced that ERM entry is the panacea for the UK economy that has been claimed.

Scepticism does not have the right degree of visceral excitement to move markets; but if the markets' fear of the Government's lack of signals about its intentions overwhelms its greed, sterling's appreciation could turn into a rout.

Pöhl says 'hard Ecu' plan is consistent with EMU aims

By Anthony Robinson in Basle

BRITISH proposals for an evolutionary approach to European Monetary Union using a 'hard Ecu' are "consistent with the final objective of a European Monetary Union based on a single currency and common decision-making," said Mr Karl Otto Pöhl, president of the German Bundesbank yesterday.

The British proposals were discussed at a meeting of European central bankers yesterday and they will remain on the table until the autumn after the bankers decided to refer them to their committee of alternate governors for further examination.

Yesterday's preliminary discussion was led by Mr Robin Leigh-Pemberton, Governor of the Bank of England.

For the first time he spelled out for all the European central bank governors details of the UK plan, which was revealed last month by the Chancellor Mr John Major.

Speaking to reporters after the meeting Mr Leigh-Pemberton, said the the discussion was "very satisfactory" while the decision to refer the proposals to the alternate governors for further discussion was "expected and a very typical reaction of our committee to a new proposal."

The central bank governors are not scheduled to meet again at the Bank of International Settlements until September.

But the timetable for further consideration of the UK plan by the committee of governors depends on the timing of the alternate governors report, the UK governor said.

"I see the proposals as a constructive and helpful way of moving beyond Stage One [of the Delors plan]," Mr Leigh-Pemberton said in a statement, adding: "We'll have it ready in time for the inter-governmental conference in December."

Today he will explain the UK proposals in a speech to the European Parliament in Strasbourg where he will also meet European businessmen to emphasise the practical "bottom-up" nature of the UK proposals which British officials describe as "an evolutionary transitional route to monetary union."

When asked about the timing of UK entry into the exchange rate mechanism, Mr Leigh-Pemberton refused to comment.

Observer, Page 20

Pound quiet in foreign dealing

By Karen Zagor in New York and Katherine Campbell in Frankfurt

DEALINGS in sterling on the main exchanges overseas quietened yesterday. Frankfurt dealers said that the market had sobered up after Monday's excitement, following the remarks in Houston by the Chancellor, Mr John Major, that the rise in sterling was sustainable.

Turnover was modest and dealers said they were waiting for further news from the world economic summit.

A trader at one bank cast doubt on the theory that speculative flows were largely at the *root of Monday's advance*, arguing that interest had stemmed from corporate covering of outstanding positions.

West German economists believe that, in spite of current EMS speculation, sterling's appreciation will be firmly capped by the underlying weak fundamentals for the British economy, which do not warrant the current exchange rate. There was relatively little $/D-Mark business, and attention concentrated on the D-Mark cross rate.

During the morning, the pound was quoted at DM2.995, but fell in a minor technical correction back to DM2.985, during the course of the afternoon.

In New York, traders interpreted remarks by Mr Major that the recent rise of the pound was sustainable as an official endorsement of a strong pound and were encouraged to buy sterling.

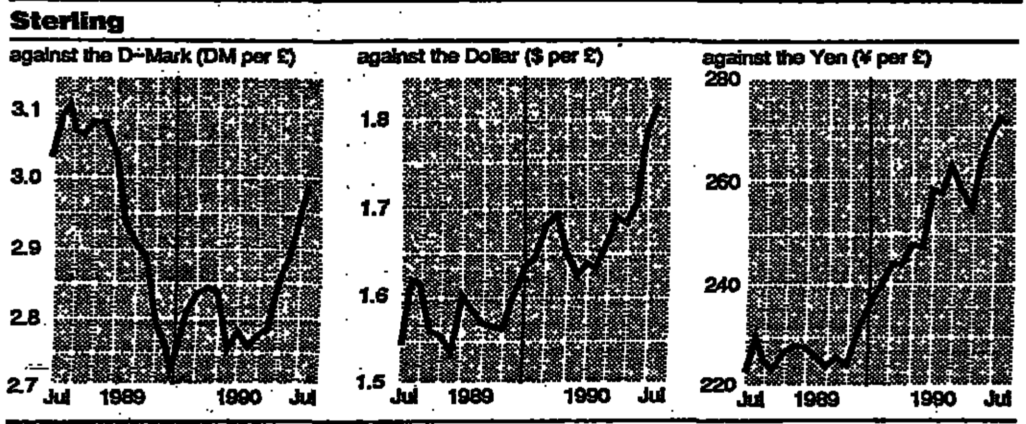
According to Mr James Merrill, a senior international economist at McCarthy, Crisanti Maffei in New York, the pound is unlikely to give up its recent gains in the near term, and may head above the DM3 level.

The UK currency held on to its gains yesterday morning in New York, where it was quoted at $1.8180, DM2.9484 and Y270.86.

Volume, however, was not particularly heavy because of the summer holiday season.

Money markets, Page 33

Sterling



Industry tightens its belts in face of threat from imports

By Andrew Marshall, John Griffiths and Clay Harris

A STRONGER pound should lead to a deterioration in the UK's current account balance, according to economic theory. But the effect may be more complicated than simple models suggest.

A rising pound makes imports cheaper and exports more expensive. But the effect of the appreciation on visible trade depends on how individual companies and sectors behave; on whether they adjust profit margins, or take the benefits and losses of a rising pound on their volumes.

A further factor is the extent to which exchange rate movements are offset by currency hedging, or made immaterial by arrangements such as fixed exchange rate contracts.

The UK motor industry is one of the biggest single contributors to the UK's balance of trade deficit. The industry's deficit rose by 7.2 per cent last year to reach a record £6.55bn.

But the industry as a whole, hit by sharply falling domestic sales after five years of almost uninterrupted growth, yesterday appeared more interested in the prospects of a stronger pound leading to lower interest rates than in the direct effect on export-import pricing.

Manufacturers and dealers blame the interest rates squeeze for a fall in sales which has been accelerating since late last year, and which saw June's sales some 18 per cent below year-ago levels.

Even importers are more interested in seeing the market downtrend reversed through lower interest rates, than any gains they can stand to make from more advantageous exchange rates.

In any case, the structure of some importers' relationships with their vehicle makers means that exchange rate shifts are all but neutralised. As Mr Kevin James, financial controller of *Lonrho-owned* Volkswagen/Audi points out, the German car maker bills the UK company in sterling, and compensates for currency fluctuations within its own foreign exchange operations in Wolfsburg.

"So there is very little effect on us", says Mr James.

For two of the "big four" UK manufacturers, Ford and Vauxhall, the pound's latest strengthening is likely to improve profitability because both are net importers.

Ford exports many engines and other components to the Continent, but is a *big* importer of cars. Vauxhall exports few cars or components and imports most key components for its Luton and Ellesmere Port production lines.

The effect on Peugeot is less beneficial, because it is now exports nearly two-thirds of its Ryton-produced Peugeot 405 models – but these are also assembled primarily from imported components.

Rover Group, with no manufacturing bases outside the UK, is hardest hit by the pound's appreciation as it struggles to increase export sales.

However, it is primarily dependent on the UK for its sales and it, too, is preoccupied most with seeing interest rates come down.

Senior economists at the Society of Motor Manufacturers and Traders yesterday pointed out that the effect of the pound's rise for the components sector is also much less worse than it would have been a decade ago, because the main companies, like GKN, T & N and Lucas, have also concentrated heavily in the past decade on internationalising their operations. Even so, nearly half of T & N's production,for example, is still based in the UK, around *half* the output of which is exported. So sterling's latest rise rise will mean a further round of what chairman Mr Colin Hope describes as "belt-tightening."

After motor vehicles, food is the second largest contributor to the current account deficit. The £5bn trade gap in the sector accounted for 22 per cent of the total deficit in 1989.

And a stronger pound should have the immediate effect of increasing imports of price-sensitive meat and fresh produce, according to Mr Paul Judge, chairman of Food from Britain, an export-promotion body.

If sterling remains high, supermarket chains would move to buy more bacon, for example, from Denmark rather than domestic producers, he said.

However, Prof David Stout, head of economics at Unilever, the Anglo-Dutch food and consumer products group, believes the most serious effect of a lengthy over-valuation of sterling would be not on the short-term trade balance.

"It is damaging to added-value, and the future of the food industry is in adding value," he said. Not only will British exporters find it harder to sell higher value products abroad, but a high pound will encourage sourcing of such items, such as ice cream and frozen foods, from other countries.

While industry and business examine the pros and cons of exchange rate appreciation according to their specific interests as exporters or importers, Britons preparing for holidays abroad can look on sterling's strength with some relief; their pounds will buy considerably more than they expected at their holiday destinations.

FT LAW REPORTS

Futures brokers cannot force disclosure

REGINA v ASSOCIATION OF FUTURES BROKERS & DEALERS LTD, EX PARTE MORDENS LTD
Queen's Bench Division (Crown Office List): Mr Justice McCullough. July 6 1990

A COMMISSIONER appointed to hear an appeal against the rejection of futures brokers as members of a self-regulating body acts reasonably in refusing to order discovery of information relating to existing members if he has no statutory or agreed power to make an enforceable order.

Mr Justice McCullough so held when refusing an interlocutory application by Mordens Ltd, futures brokers, for judicial review of refusals by a commissioner, Mr KC Goldie-Morrison, to order discovery against the Association of Futures Brokers and Dealers Ltd (AFBD) on Mordens's appeal against AFBD's refusal to admit it to membership.

HIS LORDSHIP said Mordens traded as *futures brokers*. They desired membership of the AFBD as a consequence of the *Financial Services Act* 1986.

The Act prevented any person from lawfully carrying on investment business of any kind unless he was exempted (which Mordens were not), or was authorised to do so.

Authorisation might be granted by the Secretary of State, or by becoming a member of a recognised self-regulating organisation (SRO).

An SRO was a body which regulated the carrying on of investment business.

AFBD was incorporated in 1984. It achieved recognition as an SRO for investment business of various types, including futures, by an order dated January 13 1988.

Mordens applied for admission as a member on January 28 1988. It had to satisfy AFBD that it was "a fit and proper person to carry on investment business . . . by virtue of . . . character, experience and financial resources."

Its application was refused. It appealed. A commissioner was appointed to hear the appeal with a legal assessor.

By rule 3 of the AFBD rules, "at the hearing of the appeal the commissioner may adopt such procedures as he considers appropriate . . ."

After written submissions from each side had been made and a hearing requested, the commissioner held a preliminary hearing concerned with matters of procedure.

One matter considered was a request by Mordens that AFBD should disclose certain information and documents.

The information related to member firms whose business was comparable with Mordens's. They wanted it to rebut AFBD's assertions that their commission rates were too high and that *their clients fared unacceptably badly in terms of profit and loss*.

The purpose was to compare the extent to which their own clients and those of other firms made profits or losses after commission, to show that their clients fared no worse than those of firms which were already members of AFBD.

The commissioner refused Morden's application for disclosure. He said he did not regard it as reasonable that AFBD should be obliged to disclose the information.

He said "It is for AFBD to decide what evidence to adduce to support their case and for me to decide what weight to give to such evidence as is adduced."

Mordens, being dissatisfied with that decision, applied for leave to move for judicial review. The application was refused, and was refused again on renewal.

The hearing before the commissioner began on September 25 1989. While Mr Mann for Mordens was cross-examining AFBD about information relating to the performance of other member firms, a question arose as to confidentiality.

On day five, September 29, the commissioner ruled that the information fell within exception (n) in section 180 of the Act. That meant that section 179 would not have protected it from disclosure had it been obtained by one of the "persons" listed in section 179(3) in the discharge of his functions under the Act. AFBD was not such a person.

AFBD had a rule which dealt with confidentiality in terms similar to those in section 180. By rule 3.15 AFBD had the right, though not the obligation, to disclose the information which Mordens wanted.

The commissioner considered the information was highly relevant to the appeal and that he would be assisted if it were given.

He said "I do not consider that I have the power to compel . . . AFBD to give the information, but if it is not given, its absence will be a matter which I shall have to take into account when deciding the appeal."

After September 29 the hearing had to be adjourned. It was resumed on November 15. Meanwhile solicitors on each side corresponded. In a letter of October 18 Mordens's solicitors reformulated the description of material they wanted.

AFBD's solicitors replied that AFBD had decided disclosure would severely damage its relationship with members. It had resolved not to disclose the information as it was confidential.

Copies of the correspondence were sent to the commissioner. When the hearing resumed he repeated and clarified his ruling.

Mr Mann tried again. He drew a distinction between the general application made on September 29 and the application for an order of discovery of specific documents that he was now making.

The commissioner gave the first of the two decisions which were the subject of the present application. He said he did not see any reason to depart from what he said on September 29.

He indicated again that he regarded the evidence as highly relevant and that he would have to take its absence into account in considering the appeal.

On the same day Mr Mann applied for disclosure without identification of members.

Then came the second of the commissioner's decisions now under challenge.

He repeated that he would not give such a direction. He explained that the evidence given during the day had made the information Mordens wanted even more relevant, and that strengthened the point he had made before – that he would have to take its absence into account. He said: "It does not change my decision not to require."

On November 16 the appeal was adjourned to enable Mordens to apply for leave to move for judicial review.

The commissioner had been charged with the duty of deciding an appeal against refusal of membership. That of itself gave him no power to make any enforceable order against either party to the appeal. Such powers as he had could be derived only from statute or agreement. No statute gave him power to make an enforceable order for discovery.

His powers were derived from AFBD's rules by which both Mordens and AFBD agreed to be bound by participating in the process which the rules prescribed. No rule gave him power to make an enforceable order for discovery.

Mr Mann submitted that the commissioner had power to make an unenforceable order and the only reasonable conclusion to which he could have come was to make one. He said that such an order would not have been devoid of effect – AFBD might have obeyed it. He said that had AFBD not obeyed, Mordens might have compelled obedience by breach of contract or judicial review proceedings.

None of those arguments was persuasive. Any proceedings would have foundered on the argument that to grant Mordens the relief sought would be to force AFBD to do what the commissioner could not force it to do. That would be to legislate by the back door or to subject AFBD to a liability which it had never agreed to accept.

It was inconceivable that the court would grant leave to move for judicial review against AFBD in the circumstances.

Mr Mann's submission that obedience to an unenforceable order of discovery could have been indirectly enforced was rejected.

It was artificial to ask and unnecessary to decide whether the commissioner had power to make an unenforceable order of discovery. If he had no such power his decisions were unchallengeable; if he did have the power, the relevant question was whether he was beyond the bounds of reasonableness in deciding not to make an unenforceable order.

The question admitted of only one answer: No.

It mattered not whether the commissioner was saying that he could not make the unenforceable order, or that he would not. It could not be said that he was unreasonable in not making an order that he knew he could not enforce.

He fully understood what did matter, which was that he could not make an enforceable order. What needed to be said was what he did say, namely that if the material was not going to be produced, he would have to take its absence into account in deciding what weight to give to certain of AFBD's allegations against Mordens.

It was impossible to call his decision unreasonable. The application was dismissed.

For AFBD: Patrick Howell QC (Clifford Chance).
For Mordens: Anthony Mann (Stephenson Harwood).
For the commissioner: Nigel Fleming (Norton Rose).

Rachel Davies
Barrister

TECHNOLOGY

Chemicals company tough on plastics

THE RACE to develop a new type of biodegradable plastic has speeded up with the news that Montedison, the Italian chemicals company controlled by Raul Gardini's Ferruzzi agricultural group, has begun production of a new material, called Mater-Bi.

According to Montedison, the new substance has all the advantages of traditional plastics used in packaging and medicine while decomposing in the same way as certain types of paper.

Many chemicals companies see the development of biodegradable plastics as one of their best responses to the environmental challenges facing the industry. Both Warner-Lambert, the US chemicals group, and ICI of the UK are working on new biodegradable plastics of their own.

Although costing about L6,000 (£2.80) per kilogram - around four and a half to five times the price of conventional polyethelene – the price for Mater-Bi should halve once volume production begins, according to Amilcare Collina, Ferruzzi's research chief.

Current output capacity for Mater-Bi is 5,000 tonnes a year, with a scheduled rise to 12,000 tonnes by the first quarter of next year, according to Collina. Depending on demand, the company forecasts a further increase to 100,000 tonnes a year by the mid-1990s, he said.

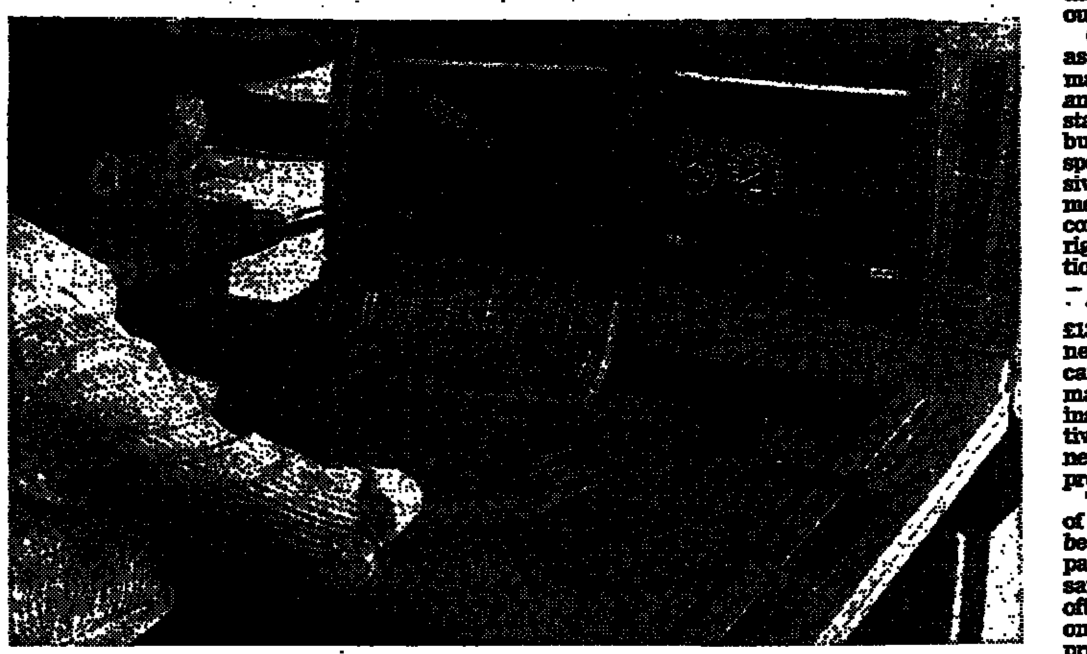
Mater-Bi works by combining large amounts of starch, of which Ferruzzi is one of the world's leading producers, with conventional chemical polymers. It will degrade by about 50 per cent within two months, depending on where it is dumped, the company says.

At the same time, the material can withstand the high temperatures and pressures required in the production processes used for applied plastics today. In the past, plastics with a high starch content have been of limited practical value because of their inability to withstand processes such as injection or heat moulding.

Haig Simonian

Clive Cookson describes how computerised design and manufacturing have changed Rolls-Royce cars

On the road to a smoother ride



Phil Booth, a Rolls-Royce engineer, reviews a design layout on an Intergraph CAD machine

"ROLLS-ROYCE is intrinsically a handcrafted car," says Peter Ward, chief executive of Rolls-Royce Motor Cars. "It is the craftsman's skill and the handcrafted aspects of our cars that have made the Rolls-Royce name synonymous with quality."

The challenge now, he says, is to maintain the craftsmanship while introducing computerised design and manufacturing technology, so that Rolls-Royce can produce cars more quickly and predictably.

The company's sprawling factory in Crewe, Cheshire, originally built in 1938 to make Merlin aero engines, is still strikingly *unautomated.* In many areas of straightforward metal-bashing – as opposed to craft skills such as making radiator grills, matching walnut veneers and stitching hide interiors – both machine tools and working practices seem unchanged since the factory's conversion to car manufacturing immediately after the war.

The first signs of Rolls-Royce's £200m 10-year investment and modernisation programme are, however, beginning to appear on the shop floor. Most obvious is a £10m computer-controlled paint shop, completed late last year. The factory also has one deburring robot, made by ABB of Sweden, removing excess metal from the inside of engine blocks. And its first Flexible Manufacturing System (FMS), based on two Hüller Hiller machining centres from West Germany, is starting to produce various components including rear axle cases and covers.

Behind the scenes, Rolls-Royce is making substantial investments in computers for its design, engineering and manufacturing operations. There are three main systems:

● A computer-aided design (CAD) system from Intergraph, the large US-based computer graphics company. Engineers are using three-dimensional modeling programs to design two new ranges of Rolls and Bentley cars, due for launch in the mid 1990s, and to update the current models. Data from the Intergraph system will be used to program computer numerically controlled (CNC) tools on the shop floor.

● A computer-aided process planning (CAPP) system from SD-Scicon, the UK software company, running on DEC Vax computers. Supercapes, as it is called, is a link between design and production. It tells engineers exactly how to make any of the 25,000 parts assemblies that Rolls-Royce produces (12,000 are used to build today's cars and 13,000 are spare parts for previous models). The system holds full details of production routings, machines to be used, inspection steps and so on for every part, and it can simulate the effect of new machine tools or manufacturing methods before purchasing decisions are made.

● A manufacturing resource planning (MRPII) system from Computer Associates, the US software company. This uses a powerful IBM-compatible Comparex mainframe to match the whole factory's manufacturing requirements against customers' orders for new cars and spares. MRPII plans the overall production schedule so that materials flow as efficiently as possible through the factory, reducing levels of inventory and work in progress to the minimum while avoiding production bottlenecks.

The terminology of industrial computing can be very confusing, says Phil Cheetham, senior manufacturing consultant at SD-Scicon and chairman of the Computers in Manufacturing Committee of the Institution of Civil Engineers. "A simple way of thinking of the three systems is that CAD tells you *what* to make, CAPP tells you *how* and MRPII tells you *when* to make it."

Rolls-Royce has installed the three systems separately over the past five years but plans eventually to link them together into an integrated design and manufacturing system. The computer link between MRPII and Supercapes has just gone live; Supercapes will be linked to the Intergraph CAD system in due course.

The Crewe factory used to make Rolls parts in batches of 400, says John Cooke, who retires this summer as manager of computer-integrated manufacturing. The new systems have enabled the company to cut the typical batch size to a week's car production (about 70) "and we'd like eventually to produce no more than needed for the next assembly process – which may be just three or four."

Engineers at Rolls-Royce started using computers about 10 years ago, to carry out "finite element analysis" on their designs. This is a computational technique for determining the strength of mechanical structures, how they respond to stress and how they vibrate under various conditions.

The company originally used an outside bureau to carry out its finite element analysis on DEC Vax computers. "We couldn't believe some of the first results because they were so different from what we had expected. We spent a long time poring over them – and the computer was right and our intuition wrong," recalls Bob Upcott-Gill, who was responsible for the finite element analysis project and is taking over from Cooke as manager of computer-integrated manufacturing.

That experience convinced Rolls-Royce to buy its own system for both finite element analysis and CAD. The company installed its first three Intergraph workstations in 1985 and the following year it decided to expand the system in phases. Today there are 12 workstations and the plan is to have 22 by 1992.

"Manual drafting is still cheaper than CAD, job for job," says Mike Dunn, Rolls-Royce engineering director. "But CAD gives you an accuracy that you wouldn't dream of achieving on even a huge layout board."

Cooke says that CAD and its associated structural analysis may slightly increase the time and money spent in the early stages of designing a new car but it very much reduces spending on the (more expensive) later stages of development. "We can now be more confident that we've got things right – for instance on vibration, noise and crash resistance – before we commit to metal.

"If it costs the company £13m a year to run the engineering department and we can bring a product to the marketplace in four years instead of five, we have effectively won £13m worth of engineers' time towards our next project."

Traditionally the final stages of developing a new Rolls have been a "nightmare" of incompatible prototype cars, Cooke says. "At the end we were often designing features twice, once to fit the development prototype (which we couldn't afford to throw away) and once for the production line."

Rolls-Royce engineers believe CAD will ensure that the run-up to the new Rolls and Bentley launches in mid 1990s is far smoother, with little need to test and adapt the computer designs on a series of hand-made prototypes.

The company is already exchanging 3D drawings with component suppliers using different CAD systems such as IBM and Computervision. "In the past when we received new parts from a supplier we went through a period of tool adjustment – 12 weeks was typical – before the parts fitted properly. Now suppliers can program their CNC machines to cut surfaces that meet our requirements exactly."

It is debatable whether a Rolls is "intrinsically a handcrafted car". The engineers say their customers do not care whether they cut metal by hand or computer-controlled machine, so long as the quality remains high. But the interior trim and radiator grill will always be finished by hand.

UK behind the computer times

By Alan Cane

FEARS that the UK computer industry faces a lean time as customers revise downwards plans for investment in information technology are being confirmed.

Computing budgets have been expanding in recent years as companies have invested in the hope of securing competitive advantage from information technology. Now a clutch of surveys shows that companies are not only cutting back the rate of growth in their computing budgets but that a significant number intend to spend less in real terms.

The surveys show that:

● Some 40 per cent of a sample of 50 leading UK companies are planning to reduce their IT spend, according to the PA consulting group*, while only 16 per cent are projecting an increase. A mere 12 per cent of the companies canvassed are initiating big IT projects for 1991. "The slowdown in the growth of IT budgets over the past two years is accentuated by the current economic climate. We anticipate a significant decrease in IT investment for 1990-91," reports PA.

● The quarterly Price Waterhouse/Computing survey, which analyses the opinions of more than 500 data processing managers, shows that only about 50 per cent of companies of all sizes expect to spend more on computer hardware and software in the coming 12 months. It identifies some bright areas: "The public utilities are showing strong spending expectations this quarter. The education and research sector is also rallying after months of despondency."

● Most UK companies are still using IT to cut costs rather than underpin their business strategy, according to a study by management consultants Ernst & Young. Only 39 per cent of a sample of more than 70 companies indicated that they were fully aware of the benefits of IT.

The PA study was designed to examine attitudes to investment in IT against the background of the continuing slowdown in the UK economy. Keith Vickery, who prepared the report, says he detected a widespread lack of confidence in IT to deliver the benefits that are required by companies in an economic downturn. It is difficult, however, to understand what is feeding this prejudice since at least a third of the respondents admitted that they did not measure the financial return from their investments in computer systems.

Most agreed that IT was important to their business but were not prepared to increase IT investment in the current economic climate. Securing competitive advantage through IT or preparing for longer term opportunities such as the single market after 1992 were considerations that played second fiddle to the more immediate worry of high interest rates.

The survey threw up interesting differences between manufacturing companies and financial services companies. Manufacturing companies had by and large responded to the economic climate by realigning and rationalising their businesses and were confident about future prospects.

Financial services companies, on the other hand, had not yet responded to the worsening economic climate and were pessimistic about their performance prospects.

The Ernst & Young study was designed to test the extent to which companies were relating their business strategy to their human resources and to their information systems. Companies which showed strong linkages between the three areas — and by implication were in good shape — would score between 0.3 and 1.0 on Ernst & Young's scale of effectiveness. Only one in five UK companies came into that category.

The study led on from an analysis carried out by the Sloan School of Management at the Massachusetts Institute of Technology and sponsored by Ernst & Young, among other companies.

The overwhelming conclusion from the UK research is that UK companies are tackling the challenges of managing in the 1990s with tools and attitudes of mind more suited to the 1970s.

**The Impact of the Current Economic Climate on IT. Available gratis from PA Consulting Group, 33 Greycoat Street, London SW1P 2QF.*

MANAGEMENT

Manufacturing assembly

Davy Morris hoists a system out of chaos

Simon Holberton on the UK crane maker's academic input

Neil Burns is a softly-spoken man who, at 45, resembles more a country vicar than either an academic or an industrialist. Yet he is both of those.

Burns has been a director of Davy Morris, a Loughborough-based manufacturer of industrial cranes, for nearly two years. It was a job he acquired along with a professorial chair in manufacturing systems at Loughborough University.

The impact he has made at Davy Morris, a subsidiary of the Davy Corporation, belies his self-effacing image and highlights an unusual industry/academe partnership in Britain.

The appointment of Burns was the result of a meeting of two minds: those of Peter Harrisson, the energetic chief executive of the mechanical handling division of Davy, and the then vice-chancellor of Loughborough University, the late John Phillips. The idea behind the appointment was endorsed and followed through by the latter's successor, D.E.N Davies.

Burns's position is claimed by both Davy and Loughborough to be unique. He works half his time for the university – where he teaches a full load, and conducts and supervises research – and the other half for Davy Morris where he says his role is that of a catalyst, an agent of change.

Davy Morris's products compete in three broad markets: hoists, a mass market for relatively small and mobile pieces of lifting equipment; industrial cranes, large fixed equipment for factories; and speciality cranes, such as the huge pieces of machinery used at ports for the handling of containers.

The company successfully competes mainly with Japanese manufacturers, especially in the latter two markets, but throughout the 1980s it never managed to realise the potential of the hoist division. It was addressing the problems of the hoist division that Harrisson had in mind when he joined Loughborough to half-fund a professorial chair.

The problems managers faced at the hoist division were ones with which many managers in British manufacturing are confronted. Davy Morris's solutions are not original but the interaction between Burns and its management has produced a result that contains lessons for manufacturers throughout the UK.

This is how first Harrisson and then Burns described the situation at Davy at the time Burns arrived midway through 1988:

(L to r) Mike Maddock, Peter Harrisson and Neil Burns, who sees himself as a catalyst

Harrisson: "We had a good product but we could not make it economically. We couldn't get the components [of the hoist] to the line in the right quantity or at the right time. It was stop go, stop go. Production time was excessive and we had poor deliveries. We didn't understand how complex a process it was. We didn't know how to organise people. We had to change."

Burns: "Davy Morris were a typical east Midlands company. They had good design and engineering but the skill was in the employees' heads. Management was reactive. There was a lot of stock and work in progress in the factory. They had no accurate information. The data had decomposed. In short, there was no system underpinning what they did. They didn't know in which direction to move."

The two tasks were, therefore, to improve the method of manufacture and the company's information base.

In the old days the manufacture of hoists at Davy Morris was chaotic, to use the word most commonly heard at the company's plant in Loughborough. The production line resembled a snakes and ladders board, with components moving irrationally across the factory floor.

On top of this, the shop floor was organised along product lines, so that workers made or assembled shafts, gears, drums, etc for that one product.

To this "system" were added some sophisticated machine tools, introduced on the basis that state-of-the-art technology would help solve the problem. It did not. "They produced highly automated and sophisticated chaos, where before there had been unautomated and unsophisticated chaos," says Burns.

According to Mike Maddock, director and general manager of the hoist division, who also arrived at Davy Morris about the same time as Burns, for 85 per cent of the time any given component spent in the factory it was idle. "Only 15 per cent of the time were they being worked on," he says, adding: "It ought to be reversible."

For Burns and Maddock the solution lay in simplifying the manufacturing process and getting people to work in teams. This meant rethinking the process and getting some order into it. Now the process has been broken down and the work designed to be done in cells, or by teams of workers, so that, for example, all the gears used in all the hoists Davy Morris makes are manufactured by one cell.

The factory floor has been redesigned to reflect sequentially the production process. Materials for manufacture or assembly are located adjacent to the work station so that the use of a component or subassembly or whatever is meant to trigger its replacement.

The design of this system of work was not thought up by one individual or imposed on the shop floor from above. Burns says the final design they have come up with is not perfect but it is one which was arrived at after discussion with, and input from, the men on the line who have to operate it.

"We need flexibility," says Maddock. "We're trying to make people realise what their contribution is. By making it understandable, it makes change easier. We involve the shop floor. They have contributed their own ideas to this."

The changes, which have gone about 75 per cent of the way to completion of the factory redesign, have already had an impact. Harrisson says that output has risen by 30 per cent while floor space has contracted by 35 per cent. He hopes for further improvement when a new factory is built and the manufacturing process is fully realised.

But more than just the redesign of manufacture and assembly is happening at Davy Morris. Its information system is being rebuilt; a powerful computer system and network has been introduced. Data concerning purchasing, raw materials stocks, work in progress, capacity sales and delivery are all being brought together in a way that will enable the hoist division to know its position relative to any of those variables to past performance or budget, week by week.

"We know the things that have to be done but the difficult thing was how to do them," says Burns. "We now have a sense of direction and know where we are going. We are getting the systems right. There is an element of faith here, in that if we do all we say we'll do then we will make some money."

In his relatively short time at Davy Morris, Burns has had a big impact on the way managers think. He has questioned their long-held assumptions about work organisation and the use of technology. He has, in his own words, acted as a catalyst for change.

"Neil has brought a breadth of vision to the business that was not there before," says Harrisson. "Most managers fight fires. You've got to look at things radically and we didn't do enough of that."

By the same token, few managers are honest enough to recognise that they get bogged down in firefighting and are confident enough to do something about it.

The orchestrator of the corporate imagination

Simon Holberton reviews a book on the role of the chairman

At first sight, the idea of a "how to" book for company chairmen seemed almost as odd as a primer for an aspirant Pope or monarch. Somehow one expects men and women who rise to the lofty office of chairman of the board to know what to do.

On second thoughts, however, the idea is not that strange at all. The extent of unpreparedness of many who sit on the boards of Britain's companies is astonishing and was underlined by a recent survey by the Institute of Directors which found that nine out of 10 directors thought they were unprepared for office. Into this darkness Sir Adrian Cadbury has shed his light.

The former chairman of Cadbury Schweppes, the drinks and food multinational, and a man who in his "retirement" is a member of the Court of the Bank of England and the chairman of ProNed, the lobby for non-executive directors, among other things, has set out to write a practical guide for prospective and incumbent chairmen which also aims to raise the level of debate about corporate governance in Britain.

Cadbury is right when he says that the literature in the UK concerning corporate governance in general and the role of directors in particular is thin. The IOD, the sponsor of his study, has done most to educate directors about their role and responsibility, particularly by way of workshops for newly-appointed directors and chairmen. There are books at the technical end of the market, replete with numbered sentences and paragraphs, but little that imparts the necessary information and raises issues in a readable way.

The directors of a company are the most important officials of the company. It is to them that the Companies Act invests all power and responsibility for the conduct of the company. The position of chairman, however, has little legal standing; as Cadbury points out, the chairman is an administrative convenience who has risen to the position of primus inter pares on the board.

The standard articles of association provide for the election of a chairman. But if he or she is not at a meeting of the board within five minutes of the time of the meeting then another director takes the chair and that person, theoretically, can be any of the directors. Yet, despite this, the chairman of the board commands a position with the company and the community at large which transcends his lack of defined legal status.

In Cadbury's view the chairman sits at the head of a board which has the responsibility for defining the company's purpose, agreeing its strategies and plans for achieving that purpose, establishing the company's policies, and appointing its chief executive and reviewing his performance. In this sense the role of the chairman, and by extension the board, is one of broad direction, not one of management.

The chairman's responsibility is to make sure that the structure of the board is right – Cadbury endorses the role of outside directors and is against inviting friends to participate on a board – and that its affairs are conducted openly and on the principle of equality.

His arguments in favour of outside directors are persuasive. The board has to stand back from the day-to-day management of the business; it has to assess the progress of management in fulfilling its allotted tasks; it has to appraise the performance of the chief executive; and "frank advice of this kind can best be provided by directors who are not beholden to the chief executive for their job."

From this it can be inferred that Cadbury assumes that the chief executive and chairman are not one and the same person. His discussion of whether the two roles should be combined is timely; in these increasingly difficult times of company failure it has not escaped the eye of interested observers that in many cases of failure the roles of chairman and chief executive have been combined.

In directing the affairs of a company it is important that the interests of management do not supersede those of the shareholders. By combining the two roles a company runs the risk of blurring the distinction between direction and management, ownership and employment. The separation of the two roles builds into the company a necessary check and balance; it avoids the problems of concentration of power.

Cadbury allows himself the right to define the qualities most likely to be found in good chairmanship. They are brevity ("the test is straightforward; how much of the board's discussion time is taken up by the chairman?"), the ability to pull together the threads of a complex issue, openness and balance. Finally he must possess what Ralph Vaughan Williams called "that corporate imagination which distinguishes the orchestra from a fortuitous collection of players."

This book makes a very useful contribution to current debate over the role and responsibility of chairmen and directors. It is marred by being irritatingly ex cathedra and at times a little self-consciously wise. Cadbury is also given to some rather odd judgments, such as that the British are naturally good chairmen. Pity that has not been translated into more British companies being world class.

The Company Chairman, Director Books. 12£. Published on July 12.

TELEVISION

A no-score draw for the armchair viewer

People say the weirdest things on television. Late on Sunday evening, back-announcing an item in a Placido Domingo concert (no, not the World Cup extravaganza with Domingo, Carreras and Pavarotti in Rome, that was on ITV on the previous day; this concert was originally broadcast live from Amsterdam on the BSB satellite's "Now" channel last Wednesday, and was being repeated on Sunday as the climax to 8½ hours of arts programmes, a weekend feast that has been celebrated before in this column and which, this week, included the Concertgebouw playing Mahler's Third under Haitink, and the Royal Danish Ballet dancing *La Sylphide*) Sarah Kennedy declared "And some zarazuela there presented with Brillo."

Stay a moment while we parse that. It was clear from her preceding conversation with a "co-host" whose identity I never learned, that Miss Kennedy believed there was a style of Spanish music known as "zar-a-zuela" (four syllables like Venezuela) so named, according to her colleague, because it used to be performed out in the open among thorn bushes. In fact the word is zarzuela, taken from the name of the palace near Madrid – La Zarzuela – where this style of operetta first appeared (1629) and it is a form of music very familiar to Domingo because his parents performed it... as he is only too happy to tell anybody who inquires.

But "presented with Brillo"? Having spent three weeks listening to the ITV soccer commentators telling us that their coverage of the World Cup was presented in association with National Power (a connection you would have thought NP might have wanted to *conceal* on some occasions) I thought perhaps the Amsterdam concert was being sponsored by the pan-scouring people. Maybe the other half would be presented with Vim. In the end I wondered whether the lady might have meant "brio," believing this to be a word with "L"s in it, which pretentious people with flowery foreign accents left afloat.

Of course it could have been a case of mis-hearing (in which case, what *did* she say?) and anyway, do such things really matter? The answer surely is that they do: they always did, and as the number of television channels goes up, and competition increases, details of style, presentation and polish become more, not less, important.

One bizarre instance such as this will not prevent me watching the weekend arts programmes on the Now channel, after all there are so few alternatives. But I would prefer a knowledgeable presenter, and this oddity will probably mean a more sceptical attitude towards their material in future.

The manner of presentation is already starting to have a decisive effect on channel choice. There is a craze among sports producers for showing fast-edited action compilations backed by an appallingly tedious disco beat. This is particularly popular when a long contest is being covered with regular programmes and the videotape editors can pick out funny moments and "rock and roll" the tape to make people go backwards as well as forwards, and appear to be "performing" to the music.

The first example I ever saw was during the snooker world championship, and now we have seen the trick done for soccer, cycling, and, predictably, tennis. Like so many other viewers our instinct with the World Cup final was to watch the BBC's coverage to avoid the commercial breaks, but when they began their "funny" tape with that pestiferous drumming before the kickoff, everyone round the Dunkley set demanded that we switch to ITV, which we did, staying for the duration.

On this occasion all viewers had a choice between BBC and ITV programmes, but it is increasingly the case for those with satellite dishes that if we do not like the BBC or ITV treatment we can switch to someone else's, especially with sports programmes since both Sky and BSB provide dedicated sports channels.

'There is a craze among sports producers for showing fast-edited action compilations backed by an appallingly tedious disco beat'

On the old mixed terrestrial channels (BBC1 and 2, ITV and C4) there is a growing tendency to turn all sporting occasions – indeed all occasions of any sort – into chat shows. Thus BBC1's daily 60-minute late evening Wimbledon wrap-up began not with tennis but with a long chat between Harry Carpenter and some "personality" such as V.J. Amritraj or Fred Stolle.

Every day this programme sacrificed tennis to chat, but on the BSB Sports Channel there has been two hours from Wimbledon every evening from 8.00 to 10.00 pm and 2¼ hours on Sunday. The BSB channel has also given us 1½ hours of the Cornhill Test each evening and, in the past week, the rugby live from Auckland and the motorcycle grand prix live from Belgium. With that sort of material on offer it does not take much – intrusive music, irritating commentators, incomprehensible studio guests – to make you decide to switch away from the old established channels.

That is not to suggest there are never reasons for staying with them. In tennis there is nobody to touch the BBC's Dan Maskell, whatever his age. He knows when to remain silent, and what he does say is almost always expressive and explanatory. When Brad Pearce played Lendl, Maskell murmured after one mis-hit: "He seemed to lose the cadence of his steps as he ran up to play that forehand volley," and of Edberg in the final he said "That last service was not a service of power, but a service of placement."

Regarding Carpenter, my argument is not with the man, but with the decision to have him chat: he continues to be one of the best anchormen in the business, a fact emphasised by the startlingly contrasting rate of error achieved by a female assistant brought in this year who managed to get something wrong – current scores, names, results – almost every time she opened her mouth. Given that the BBC feels it has to have women to talk about women's tennis, it is a pity they have never found anybody remotely like a female Maskell. Near the beginning of this year's tournament they once used Pam Shriver, who was bright, knowledgeable and articulate, but I never heard her again: for the rest of the fortnight they fell back on those familiar ex-players from England who specialise in using great bundles of clichés to belabour the blatantly obvious.

At Edgbaston Richie Benaud has been proving once again his absolute reliability, and while some people find Murray Walker's motor racing commentaries unbearably hysterical I consider them merely endearingly over-excited, and ideally counterpointed by James Hunt's knowing drawl. The trouble with the BBC's report from the French Grand Prix at the weekend was no fault of the technicians: there was a dreadful crackle on the commentary soundtrack. However, once again the race could be seen live (by those willing to miss the Wimbledon men's singles final) on satellite, this time on Sky's Eurosport.

The greatest difficulty with watching sport on television in future is surely going to be our love-hate relationship with the medium. This seems to come largely from our unwillingness to tell ourselves the truth about how long we are going to spend in front of the box. If we plan an outing to Wimbledon we are realistic about it: what with travelling we assume it will be a 12-hour saga, and when it actually takes 14 hours we are not unduly annoyed.

If we were similarly realistic about our viewing we would say "Right, I'll be spending three hours watching the women's singles final at Wimbledon on Saturday afternoon, two hours in front of the Italy-England match on Saturday night, about the same on Sunday for the men's singles and the World Cup final, three hours over the two days looking at the *Tour De France*, and 1¼ hours on athletics. Almost all the rest of my waking hours will be devoted to watching the cricket from Edgbaston."

But we don't. Because the television squats in the corner of the room and is always putting out something, we no longer regard the watching of it as a proper activity at all. We pretend to ourselves that we will just watch the beginning of the singles final, or just spend 10 minutes looking at the football, and then get on with the tax return or cleaning the shoes. When we end up spending 14 hours in front of the box – precisely the time we would have spent on the Wimbledon outing – we are horrified and blame television for disrupting our lives.

Christopher Dunkley

Victory on view: Richard Hadlee, left, at Edgbaston, and Massimo Ghirotto in the Tour de France

American Ballet Theatre

COLISEUM

After a too-long absence, American Ballet Theatre is back in London for a brief week's season in celebration of their 50th year. The opening programme brought two of the company's ancestral treasures – *Theme and Variation* and *Pillar of Fire* – together with Twyla Tharp's recent *In the Upper Room*, and the celebratory fire-cracker of the *Don Quixote* duet. And, for all the changes wrought by half a century, this is still the ABT London knows and loves.

Not, indeed, that the programme was overwhelming. Looking at *Theme* just a week after the Kirov's presentation, we could recognise that American dancers have the speed and up-to-the-split-second musical precision that Balanchine choreography demands (none more so than Cynthia Harvey as the coolly exact ballerina of this performance), but Leningrad juiciness of pose, the variety of the Kirov upper body and dignity of carriage, have indelibly marked our perceptions of how this ballet can now be performed. ABT take the piece at a spanking pace and show us the dance as a triumph over the choreography's demands. The Kirov claimed the aristocratic world of the ballet rightly for their own, and inhabited it more easily for all the problems they still find with its steps.

With *Pillar of Fire* the problems have to do with both text and interpretation. The central role of Hagar – desperate for love, giving herself in unloving passion, finally rewarded with love – is the only one fully exposed in Tudor's choreography. The other characters are cyphers whose significance is to be seen if Tudor's scalpel-like art (a gesture, a step cuts unerringly and swiftly to the heart of a personality) is unblunted. ABT's present cast, led by Leslie Browne as Hagar, are careful in handling this heirloom, and wrap it in too much spiritual cotton-wool. That Noh-like precision, which Tudor should have, is missing: the ballet looks serious but unconvincing.

In the Upper Room makes vast demands upon its cast, which are most handsomely met. But it is a piece as vexatious as any I know by Twyla Tharp (whose work I greatly admire). The trouble is the Philip Glass score – commissioned by Miss Tharp when the piece was originally done by her own company, comprising nine lengthy sections of Glass's churning, clanking repetitions. Because Twyla Tharp is musically acute, these tunes for a sink-disposal unit have necessitated dance as neurotically energetic and prolix, and often rebarbative.

The cast are driven to extreme lengths of spins and runs and sometimes sportive actions, as if sparring with the dance itself amid a permanent fog of dry ice. An arbitrary logic seems to evolve from changes of costume – from black and white striped outfits to red shoes, socks, bodices – and from the contrasts between modish classic distortions and a limber, contemporary style. It is ultimately like being buttonholed by a truly virtuoso bore.

Grander and more welcome virtuosity came from Julio Bocca partnering Cheryl Yeager in the *Don Quixote* pas de deux. Bocca is a thrilling performer in major roles, where his artistry is matched – remember his Romeo, his Solor, his James – by a prodigious technique. In *Don Quixote* he comes on stage to dazzle us with transcendental skill, and he succeeds gloriously. Impeccable exposition of those steps that cause most male dancers to blench and flounder, clarity, precision, classic rectitude: these are displayed with a kind of youthful pride and a sense of fun that are irresistible. "Maradona," said one astute observer after this pas de deux. And quite as marvellous.

Clement Crisp

Leslie Brown and Michael Owen in "Pillar of Fire"

The Taming of the Shrew

DELACORTE THEATER, NEW YORK

"What brangs y'all to Padyaw?" Shakespeare has been twice transplanted here in A.J. Antoon's limber production of *The Taming of the Shrew* in Central Park; from renaissance Italy via post-post-modern New York to the 1880s American West. The triangulation of these three cultures places the continuing tensions between the sexes in a moment distanced from and still part of modern America.

In a move which typifies the way America reprocesses other cultures, Antoon has updated Shakespeare, absorbed the past while keeping it discreet from the present. The open air Delacorte Theater suits the production ethic; planes climb the night sky as Shakespeare's characters take to horse.

The production relies on John Lee Beatty's Western street-saloon set and Claude White's Copland-Barber score which draw on recent folk history; these in turn are served well by Peter Kaczorowski's deft, imaginative lighting.

Morgan Freeman's Petruchio is a high plains wooer intent on riding off into a connubial sunset. Tracy Ullman's brawling Kate packs a revolver and practises sharp-shooting on her bland sister Bianca (Helen Hunt). They meet, fight, enjoy each other's tantrums, and settle for a bruising truce.

Antoon keeps the action pacy and sharp. He revels in matching the play's stock characters to stereotypes available to the American experience: Hortensio (Tom Mardirosian) is a cigar-smoking sheriff and in disguise a mexican guitarist; Petruchio's tailor is Chinese. Add a harmonica player called Joe-Bob and the travelling quack (William Duff-Griffin) who deputises for Lucentio's absent father Vincentio, and the production teems with moments of local comedy. Robert Joy's finely laconic "wild-bunch" Tranio drawls at Graham Winton's squeaky-clean Lucentio. Antoon cuts Shakespeare's obtuser lines, and successfully recoins the anachronistic Shakespearian "Sirrah" as a resounding "Yessir."

But the production lacks the depth and amplitude to cope with the issues raised by the final scene. Petruchio nods complacently as Kate drinks and berates the women on wifely duties; she puts her hands under his foot as a gesture of subservience, then hurls him off his chair. This clever slapstick, however, cannot pass for what should be the wise, awkward bargain between two shrewd, shrewish individuals.

The scene shows the production's tendency to ignore the profounder themes of gender and identity by opting for a superficial approach which, although valid in itself, fails to address them; this yields an enjoyable show which is great fun to look at, but not to think about too curiously.

Andrew St George

Black Angel

KING'S HEAD THEATRE CLUB

The mind of a mass murderer poses questions that the 20th century has underlined with brutal clarity. Is the perpetrator of atrocities in the name of a political or military system merely a functionary? Does that exempt him from what we are pleased to regard as common humanity? Is it a case of "there but for the grace of God go I," given particular pressures and circumstances? Or does it take a special personality, blunted not just in humanity but in moral sense?

The horrified fascination with which we try to imagine ourselves in the minds of, say, a Klaus Barbie permeates this play by Michael Cristofer. Author of *The Lady and the Clarinet* performed in Edinburgh and London, the American playwright has written the screenplay for *The Bonfire of the Vanities*, currently in production. But this study of a Nazi war criminal, tried, jailed and released, finally pursued to a violent death by the locals of the French town where he has settled, leaves a whopping hole at the centre.

This is partly the writing's fault. Past and present dovetail sometimes confusingly. Martin Engel, building his own house in a suspicious community in 1982, remembers teenage courtship, the young manhood that saw his entry into the SS, his post-war trial and imprisonment. But he remains a blank. We never know if this lacklustre figure was guilty or not; even his climactic description of the hideous massacre he ordered might be the fantasy of a man obsessed with guilt and wishing to dramatise it. It is never clear why the death sentence was cancelled; why his glum acceptance of responsibility in prison led to his release after some years, despite his wife's taunts that he would not fight for his freedom. And even if his pursuers are bigots, racists or political manipulators, does that lessen his culpability?

The play answers none of the questions.

But the greater fault lies with the acting. Frank Finlay's Engel is off-hand and casual to the point of apathy. This is a slovenly performance of throwaway naturalism, lazy, unthought-out and listless. It makes no attempt to clarify the character's ambiguities (and, one suspects, the author's uncertainties as to whether to sympathise) but goes lifelessly through the motions.

Lynn Farleigh brings her warmth and intelligence to the part of his wife; and Bernard Gallagher sums up the puzzling morality of the piece as a tolerant, quizzical French mayor, while never making the character remotely plausible. Rob Mulholland directs as well as he can. But the puzzle over the human motives – those of the writer as well as his creations – remain.

Martin Hoyle

ARTS GUIDE July 6-12

THEATRE

London

Anything Goes (Prince Edward). Cole Porter's silly ocean-going 1930s musical has Elaine Paige failing to emulate Ethel Merman (Louise Gold takes over on July 2). Jerry Zak's desperately bright production comes from the Lincoln Center in New York and is undemanding fare (734 8951, cc 836 2428).

Jeffrey Bernard is Unwell (Apollo). Tom Conti is the alcoholic journalist. Keith Waterhouse has stitched a fine play, the season's highlight, from Bernard's own writing. Ned Sherrin directs (437 2663).

Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is musically interesting and well directed by Trevor Nunn. A cast of unknowns project the right sense of sybaritic insouciance. A probable, but unspectacular, hit (839 5972).

Shadowlands (Queen's). Weepie about the love affair between crusty Oxford writer C.S. Lewis and the cancer-riddled American poet Joy Davidman, which pushes both Nigel Hawthorne and Jane Lapotaire into the awards stakes. William Nicholson's play is irresistibly emotional. Elijah Moshinsky's direction is superb (734 1166/439 3849).

The Wild Duck (Phoenix). Peter Hall's revival of Ibsen's tragi-comedy champions the great Norwegian's humorous potential. Alex Jennings, David Threlfall and Nicholas McAuliffe head the cast (071 240 9661).

Absurd Person Singular (Whitehall). Robust revival of early Ayckbourn comedy, directed by the master himself, about three couples at Christmas in three kitchens over three years. (071 867 1119).

Henry IV (Wyndham's). Pirandello's cat's cradle of fantasy and reality in a production by Val May the sobriety of which belies its pre-production hijinks. Richard Harris gives a star performance as the nobleman who thinks he is an 11th century king (071 867 1116).

Vanilla (Lyric). Heavy-handed satire on New York super-rich and US-backed overseas dictatorships, directed by Harold Pinter, with a cast including Sian Phillips, Joanna Lumley and Gwen Humble, who do New York writer Jane Stanton Hitchcock prouder than she strictly deserves (071 437 3686)

New York

Cat on a Hot Tin Roof (Eugene O'Neill). Kathleen Turner, whose statuesque good looks embody Tennessee Williams' vibrant character Maggie, is surrounded by an excellent supporting cast in Howard Davies' production.

Grapes of Wrath (Cort). The Steppenwolf company's interpretation of the Steinbeck epic novel brings alive the 1930s in its squalor as well as its test of human strength. Gary Sinise as Tom Joad stands out in Frank Galati's adaptation.

Heidi Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covering 20 years in the life of a successful American baby boomer goes from support for Eugene McCarthy's presidential aspirations to electoral ambitions in the 1980s, accompanied by the musical and emotional flavour of the period (239 6200).

Gypsy (St James). This 30th anniversary production does more than revive a rich, vivid musical; it also introduces a new belter in the Merman tradition, Tyne Daly, as the brassy, tireless and tuneful Rose, who shamelessly leads her daughter into burlesque while rejecting a personal life for herself (246 0102).

Grand Hotel (Martin Beck). Tommy Tune, Broadway's premier musical doctor, directs this remake of the Garbo film to at least shake the bones of this inert depiction of lives crisscrossing in an elegant, but somewhat random setting (246 0102).

Sweeney Todd (Circle in the Square). An intimate production of the Sondheim-Wheeler musical emphasises the descent into madness of Bob Gunton as the demon barber of Fleet Street (239 6200).

Jerome Robbins' Broadway (Imperial). Anyone attracted by the notion of three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including *On the Town*, *West Side Story* and *Gypsy*. The lustre of the credits is dimmed by the brevity of each piece, with a contemporary crew of Broadway aspirants who lack the multi-talents that inspired the heyday of the musical.

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).

Phantom of the Opera (Majestic). Stuffed with Maria Björnson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Washington

Starlight Express. Andrew Lloyd Webber's roller-skating musical rolls into Washington on its national tour. Ends July 14. Kennedy Center Opera House (467 6760).

Chicago

Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of southern life from under the dryer in a busy hairdressing establishment (988 9000).

The Gospel at Colonus (Goodman). The season concludes with a visit from this widely toured spirited version of Sophocles, set in an Afro-American Pentacostal church. Ends Aug 12 (443 3800).

Tokyo

Kabuki. Kabuki-za (541 3131). The matinee at 11am is a mixed programme that includes a spectacular lion dance, while the 4.30pm performance consists of the even more spectacular full-length play, *Tenjuku Tokabe*. Excellent earphone guide in English and English-language programme. Meanwhile, the National Theatre (265 7411) has a "kabuki classroom" that consists of a lecture demonstration followed by a performance of *Kozu no Ba (The Fox Princess)* – an excellent introduction to kabuki. Opens Wednesday.

SALEROOM

Hefty little earner

The antiquities market is booming, despite all the wrangles about the pilfering of sites and the smuggling of artefacts. Sotheby's brought in £2.15m yesterday from its morning session and was heading for a London record in this sector. Less than 10 per cent was unsold.

The star lot was an Egyptian turquoise-glazed faience hippopotamus, just over 4 in long, produced in the Middle Kingdom around 1750 BC.

Fifty of these hippopotami have survived, but only five are of this shape, with the head turned and the jaws spread. It was excavated in 1907 and was part of the famed Schuster collection. It carried an estimate of up to £150,000, but the London dealer, Robin Symes, paid a hefty £528,000 for it.

A detail from a banqueting scene from the Tomb of the Two Sculptors, a painted fragment from Thebes dated 1350 BC, also did very well, making £187,000 as against a £50,000 top estimate. A similar smaller image from the same source far exceeded forecasts at £99,000.

Moving away from Egypt, an Attic red figure Greek krater (or two-handled vase), made around 500 BC and decorated on the rim with male figures, sold for £90,200, and the Merrin Gallery of New York paid £66,000 for a Greek bronze figure of a horse, 3¼ in high, of the 8th century BC. A first century AD Roman marble head of the Emperor Trajan realised £55,000.

Christie's auction of English drawings and water-colours totalled £533,000, but with over 20 per cent bought-in. The London dealer, Spink, paid £104,500, at the bottom of the estimate, for a Turner water-colour of Farnley Hall, near Otley in Yorkshire.

Two items to beat their forecast were a John Martin view of the Thames near Richmond, which sold for £41,800, and a Thomas Rowlandson water-colour of Old Smithfield Market, which went for £40,700.

A Landseer sketch of Sir Walter Scott's deerhound, Maida, did very well at £19,800. The two disappointments were a Gainsborough landscape, unsold at £13,000, and a Constable of Little Wenham Church, Suffolk, unwanted at £18,000.

Phillips also had its problems with its sale of British paintings, which was 37 per cent unsold. However, a John Martin seacoast scene doubled its forecast at £85,800. A view of the Grand Canal, Venice, by William James, sold for £33,000.

Antony Thorncroft

FINANCIAL TIMES
NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Wednesday July 11 1990

Post-war reconstruction

AFTER war, comes reconstruction, or so suggests the precedent of American treatment of Germany and Japan after the Second World War. But what if the erstwhile foe is exhausted rather than defeated? What if his armaments still point in your directions? What if the economic system that brought him low retains its icy hold? What if the political system that made him your enemy remains the basis for power of the leader who craves your support?

With all these ambiguities, it is little wonder that the west's victory is being met by bickering over what to do with (or for) the defeated. Not least in this respect a whiff of 1919 is in the air. But reparations are not in question; the point of dispute is rather the extent, timing and conditions for assistance with reconstruction.

Two reasons for a comprehensive western assistance programme can be dismissed. It is not for the west to purchase Soviet acquiescence in German unity (even though it may be for the West to purchase acquiescence in Germany's Nato membership). Equally, the Soviet Union does not figure among the more pressing cases for humanitarian aid. The Soviets reject charity; so should the west.

The case for assistance derives from *realpolitik*. It is that an economically reformed and more prosperous Soviet Union would be a cosier Soviet Union to live with. The argument, while plausible, is not undeniable. A humiliated great power must be a threat; an economically successful, but politically unreformed, one would be no less of a threat. Assistance can only be justified if it gives hope both of economic progress and of continued political reform.

Necessary condition

In short, a necessary condition for western assistance is the existence of a government committed to political liberalisation and radical economic reform. Whether President Gorbachev's Government meets those criteria is uncertain. But one should not cling to one's nurse, for fear of something worse, especially when half-hearted reform is, in any case, unlikely to ward off that something worse.

Since the need for stiff conditions cannot be doubted, the issue now dividing the leaders of the Group of Seven industrial countries is not fundamental. It would, indeed, be foolish to give money to someone with a hole in his pocket, but it should make little difference whether one insists that it be sewn up before offering assistance or as a condition for offering it.

What is important, however, is that donors respond to proposals rather than impose conditions. The programme of reform must be seen, particularly within the Soviet Union, as that of its own Government. That programme may attract western support, but it should not be viewed as framed to meet western conditions. The political penalties for playing too assertive a role might undermine the political reasons for assistance.

Worthy programme

A programme worth supporting would have to contain four elements: comprehensive budgetary reform, the aims including a balanced budget and a sharp reduction in military expenditures; liquidation of the monetary overhang, along with movement towards convertibility of the currency on current account; freedom for small private businesses (including farmers), together with demonopolisation of state enterprises and a beginning to privatisation; and price liberalisation.

If the Soviet Government were to request assistance for a fully articulated (and monitorable) programme of this kind, the response should be positive; it should be concerted, not least because it would then be easier for the Soviet Government to accept; and it should be generous. There is no sense in offering a leaky life-jacket to a drowning man.

The assistance would have to be sufficient to help liquidate the monetary overhang. It would also have to be enough to allow the liberalisation of agriculture, while preventing a catastrophic deterioration in real wages. It is most unlikely that the required impact could be achieved for less than $50bn, which would still be less than half a per cent of the gross national product of the western countries.

A brave Soviet programme would deserve a generous response. The west should stand ready to help Soviet reform, but only if the Soviets are contemplating that reform out of an acknowledged desire to help themselves.

Small business needs a hand

SMALL businesses have made great strides since the publication of the Bolton Committee Report on small firms nearly 20 years go, and a number of innovative schemes have been launched to promote their growth. But the UK has been less successful in helping these companies grow to the point where they become significant forces in their international markets.

Few British manufacturing companies formed since the war have sustained growth beyond turnover of £100m or £200m a year, and many of the success stories of the early 1980s have been swallowed up by large multinationals. For all the excitement about the high-technology companies which comprise the "Cambridge phenomenon," most still employ fewer than 50 people.

The small size of the UK market means that British companies will always have a struggle to grow to any size compared with their US counterparts. But more could be done to help by both the Government and private sector organisations, according to a study on the barriers to growth in small firms, published by the Advisory Council on Science and Technology.

Vital role

Smaller firms are worth encouraging. They play a vital role in translating new scientific and technological knowledge into economic wealth. They also provide the pool of companies from which large international businesses can emerge.

The trouble is that their managers frequently lack the strategic management skills needed to allow their businesses to grow. There is an inadequate supply of external risk capital, despite the rapid growth of the venture capital industry. And there is not enough encouragement from government for these firms to expand.

The report makes a number of suggestions about how these problems could be overcome. Large companies could be encouraged to take equity stakes and a closer interest in small companies – in the US corporate venturing, as this is known, is very advanced. The Business Expansion Scheme should be steered towards companies requiring small amounts of finance. Investment protection legislation should be eased to promote local capital markets. More controversially, the report suggests that a small proportion of government research and development contracts should be reserved for small firms, at a cost of between £20m and £60m a year.

Lukewarm response

The Government's response to these proposals has been lukewarm. It says that the problems of growth are the "unavoidable challenges in market, management and technology" and any help must go with the grain of the market. This is short-sighted.

A number of the report's ideas are sensible responses to bottlenecks, and would not require civil servants to second-guess the market.

Indeed some of the proposals could be criticised for being too modest. The Business Expansion Scheme needs a more fundamental redirection if it is to help small high-risk businesses to get started. The proposal to promote local capital markets appears unrealistic: a better approach might be to take a proposal from the venture capital industry which would allow managers in small businesses to enjoy the same BES-style tax concessions currently available only to investors uninvolved in the management.

The suggestion that the Government should allocate a small percentage of research and development contracts to smaller firms is worth more consideration. A similar scheme has worked well in the US, and current funding for small firms' innovation is meagre.

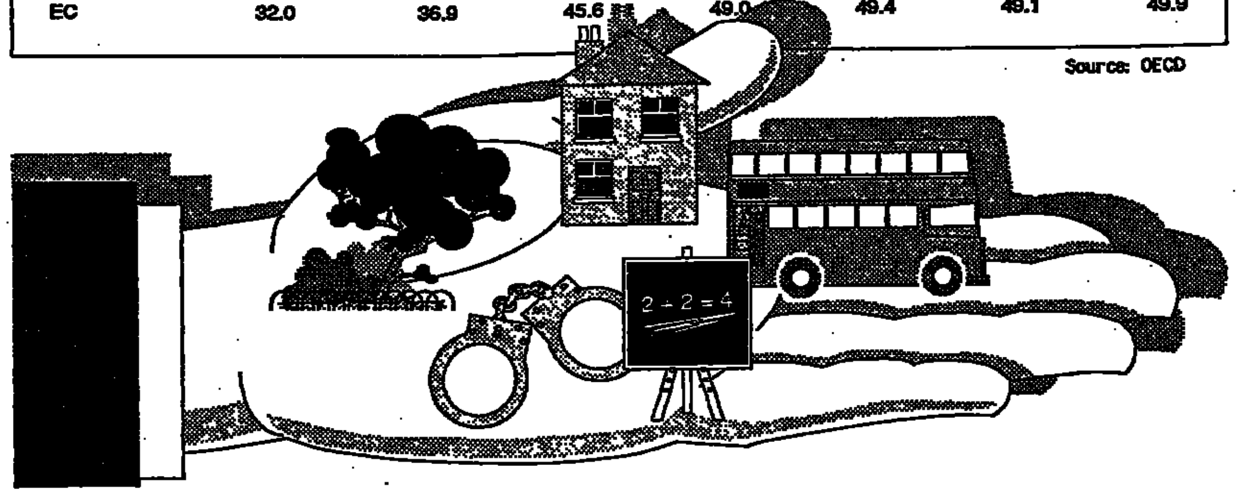
If the Government really wants to attach a high priority to the small firms sector, it should respond more positively.

Michael Prowse sees the 1990s as a decade for renovating the public sector

Total government outlays as a percentage of GDP (includes Defence)

	1960	1970	1980	1982	1984	1986	1988
US	27.0	31.6	33.7	36.5	35.8	37.0	36.3
Japan		19.4	32.6	33.7	33.2	33.1	32.9
W.Germany	32.4	38.6	48.3	49.4	48.0	46.9	46.5
France	34.6	38.5	46.1	50.4	52.0	51.6	50.3
Italy	30.1	34.2	41.7	47.4	49.3	50.9	50.6
UK	32.3	38.8	44.9	47.1	47.5	45.2	42.8
OECD	28.6	32.3	39.3	41.3	40.4	41.1	39.8
EC	32.0	36.9	45.6	49.0	49.4	49.1	49.9

Source: OECD



Putting a price on the quality of life

The 1980s was a decade of renewed faith in the private sector. Governments around the world praised the efficiency of markets and deregulated industries. The business landscape was transformed by a wave of privatisation stretching from Mexico to Japan.

At the beginning of the 1990s, attention is switching back to the public sector. This is less a reflection of a desire to expand the sphere of government than a belated recognition that, like it or not, the performance of the public sector is a crucial determinant of the quality of our lives.

Capitalism is startlingly effective at producing consumer and capital goods. But cars, restaurants and steel mills cannot, in themselves, guarantee the good life. For most families, the quality of schools, hospitals, community care, the environment, public transport, law and order, town planning and welfare benefits is of at least equal importance. Yet in the developed world most of these services remain predominantly the public sector's responsibility.

Concern about the quality of public services represents a third phase in policy towards the government sector. In the early 1980s, the priority nearly everywhere was to reduce the growth of public expenditure, which was seen as threatening macroeconomic stability. The retrenchment was partially successful: public spending continued to rise but in most countries it stabilised as a share of GDP.

Attention then switched to the way revenue is raised. In a second phase of reform, policymakers attempted to reduce the disincentive effects of high taxation. In the mid and late 1980s, top marginal tax rates tumbled in most OECD countries as governments broadened the tax base and attacked the fiscal privileges of particular interest groups.

But these phases of reform left most of the problems associated with government services untouched. Efficiency in the raising of revenue is of limited significance if the programmes thus financed offer poor value and little customer satisfaction. And spending restraint is often merely a recipe for long-term discord.

This is particularly evident in the UK where the Government – by international standards – has been spectacularly successful in curbing the growth of the public sector. Opinion polls indicate deep misgivings about the quality of services. In particular, there is a widespread conviction that education, health care and transport are underfunded.

As per capita GDP rises, individuals tend to want to spend proportionately more of their incomes on services. Artificial constraints on public spending prevent this occurring, thus shifting the distribution of expenditure towards unrestricted items such as consumer durables.

How should governments respond to such pressures, which are likely to grow steadily more intense? One option would be to abandon the retrenchment policies of the 1980s and allow public spending to find its own level as it did in the immediate post-war decades. But this would mean big tax increases.

The alternative is to hold the ratio of public spending to GDP at about current levels while seeking to raise the quality of public services through an aggressive reform programme. This would be a promising policy only if big improvements in public sector efficiency are feasible. The scope for such improvements is hard to judge. The root of the problem is the lack of clarity about goals in the public sector. This is aggravated by a lack of information about outcomes.

A commercial company exists to make profits. If it is making profits, it is doing well. Provided it operates in competitive markets, it will have an incentive to minimise costs and adjust to changing demands.

Life in the public sector is far more complex. A chief constable has a budget and a general requirement to maintain law and order. But he has no competition and little knowledge of the preferences of local people. How does he judge whether he is using his resources of labour and capital sensibly? How, for that matter, does he measure the "output" of his police force?

There are no easy answers. But this is not to say that nothing can be done. Strategies being implemented or contemplated include:

● Managerial reforms. The essential idea is to get public sector employees and departments to behave in a more businesslike manner. The first steps are usually value-for-money and efficiency audits, the aim being to eliminate easily avoidable costs. This is typically followed by an upgrading of cost and management information systems. This can have a worthwhile pay-off: for example, until recently, the cost of capital was unknown and hence largely ignored in much of the UK public sector.

More ambitious managerial reforms include the separation of policymaking and executive functions. This is under way in several Whitehall departments as part of the Government's "Next Steps" initiative. Lack of clarity about the ultimate goals of public sector managers can be mitigated somewhat by setting intermediate targets and linking pay to performance so defined. Thus it would be possible to link the pay of British Rail managers to the punctuality of trains or that of doctors to their success rate in operations.

Sometimes it is possible to link pay to the final objectives of public sector officials. For example, the remuneration of New Zealand's central bank governor is linked to his success in controlling inflation.

● Internal markets. The idea here is to mimic the effects of market forces while keeping the sectors concerned under the overall control of politicians and civil servants. The Thatcher Government is pioneering this approach in both health care and secondary education. In the reformed National Health Service, care will continue to be free at the point of delivery and financed mainly from taxation. But hospitals, wherever possible, will be spun off as self-governing trusts and obliged to compete for the contracts of health authorities. The aim is to inject a considerable measure of competition into the supply side of health care.

Something similar is happening in the school system. Under present reforms, state education remains financed by taxation and thus "free" to parents. But various measures are designed to stimulate internal competition. Under the "opting out" rules, state schools can exit from the local authority sector and accept direct funding from Whitehall.

Changes within the local authority sector are equally radical. Under open enrolment, parents can select from a wider range of schools; meanwhile the delegation of budgets to individual headteachers and the closer linkage between funding and student numbers mean that schools have a stronger incentive to compete for pupils.

● The "enabling" state. The logic of this approach is that government has a responsibility for financing many activities but that it should withdraw from the provision of services wherever possible, leaving this to the private and voluntary sectors.

A low-level example is the contracting out of services such as cleaning and waste disposal. This has led to cost savings of up to a quarter in some UK public sector agencies.

The planned (but now apparently delayed) reform of community care envisages delegation on a larger scale. Local authorities are to assume responsibility for the social care of elderly and handicapped people. But they will be encouraged to become "enablers" rather than direct service providers. The plan is that case managers should assess local needs and purchase packages of care from (competing) providers in the voluntary and private as well as public sectors.

Experimentation with training credits is another example of the same philosophy in action. In pilot schemes young people will be given vouchers worth up to £1,500 to buy training of their choice from providers in the public and private sectors.

● User charges. The idea is that if individuals are obliged to contribute directly towards the cost of public services, a given subsidy can be spread much further; as an added bonus (from the Treasury's point of view), demand will be curbed.

NHS prescription charges are the most familiar example in the UK. But many possible extensions are being mooted. Within a few years, Britain's cash-starved universities will probably be forced to start charging "top-up" tuition fees. There is also considerable interest in privately financed toll roads.

Will these strategies for boosting efficiency and quality succeed? Managerial reforms are widely supported but probably offer only incremental gains in efficiency. Internal markets are harder to gauge. Enthusiasts claim they will expand choice and greatly reduce costs. But there are many sceptics. Critics on the right say markets without private ownership and real profits are a sham and will prove disappointing. Left-wingers worry that sophisticated middle-class users of services will exploit internal markets leaving the poor in even worse shape than today.

The enabling state approach addresses some of the right-wing objections. It seems less of a sham to devolve direct service provision to real private and voluntary enterprises than to encourage bits of the public sector to compete against each other. Yet if the private providers become too dependent on public sector contracts they will soon cease to behave like private sector agencies.

User charges are less a reform than a crude way of reducing costs. Unless accompanied by complex means-tests, they are bound to discriminate against the poor – the class most dependent on the state. In any case, cost-sharing between the public and private sectors is rarely a straightforward process as the collapse of plans jointly to fund the Channel fast link demonstrates.

Whatever their pros and cons, the above reforms seem unlikely fundamentally to alter the public sector's worldwide dilemma, which is that it will not be able to offer the quality of service demanded given probable revenue constraints. The biggest risk in this labour-intensive sector is an accelerating decline in the relative pay of public sector employees – and hence in their average quality. This negative impact on efficiency could greatly exceed the positive effects of various micro reforms.

Indeed, the UK's experience provides prima facie evidence that this will be the case. The Thatcher Government has been at the "cutting edge" of public sector reform during the past decade. Yet people appear more disillusioned about the quality of public services in Britain than in most other advanced economies. This is almost certainly because the ratio of public expenditure to GDP has fallen unusually steeply.

Governments in the 1990s must confront some stark choices. If they raise taxes relative to incomes, they can maintain the range of public services and improve quality in some areas. If they are not willing to raise taxes, they must either accept a general deterioration in quality or radically redefine the public sector's role – for example by privatising some large programme such as education or by abandoning some cherished ideal, such as universal state pensions.

What they must avoid is the pretence that these hard choices can be avoided by microeconomic reforms such as internal markets. These may bring helpful benefits but they cannot turn the across-the-board squeeze of the 1980s into a sensible long-term strategy.

GEC/Siemens bid for Plessey

Our article about GEC and Siemens entitled "A marriage of convenience" published on Tuesday July 3 suggested that former Plessey executives believed that these two companies had seriously misled the Monopolies and Mergers Commission and the European Commission in the course of pursuing the bid for Plessey. We accept that there is no truth whatsoever in these allegations and apologise unreservedly to GEC and Siemens for the false impression which we may inadvertently have given.

OBSERVER

Junior comes out fighting

■ Neil Bush, the 35-year-old son of President Bush, has begun a one-man public relations campaign to defend his role in the $1bn collapse of Silverado savings and loan in Denver. Mr Bush, who faces a disciplinary hearing later this year, says he has felt like a "caged-in animal in an unsanitary zoo" during the months of self-imposed silence. "Now my cage is open...I'm eating better, drinking fruit juice, and I feel like I'm warming for a fight."

Bush junior faces some embarrassing questions about his tenure as a Silverado director which ended in the summer of 1988. Regulators are looking closely at a $100,000 loan in 1984 from a Denver investor which he did not have to repay, as well as other votes to approve loans to a Denver developer who had invested in his oil company.

This free-wheeling business style was routine in the mid-1980s when the S&L industry was riding a wave. It may even have passed muster when father George Bush was wildcatting in Texas in the 1950s. But this is 1990, and the $200 billion cost of cleaning up the S&L industry has prompted the press and the politicians to look for scapegoats. For all Neil Bush's fighting talk, this is not the end of the Silverado affair.

Paperweight

■ Canada's Conrad Black, publisher of the Daily Telegraph and The Spectator is already a bit of a heavyweight in the British newspaper industry. But that's nothing compared with the weight of his revamped Telegraph board, which he announced yesterday.

The five new non-execs, who will increase the size of the board by nearly a third, to 21, range from former foreign secretary Lord Carrington, to Sir Evelyn de Rothschild, chairman of N.M. Rothschild. Both of them go back some time with Mr Black, as does Mr Henry Keswick, chairman of Jardine Matheson, who sold him The Spectator in 1988. However, the two more intriguing appointments are those of British Airways' Lord King, and Sir James Goldsmith, who is still smarting from his failed attempt to take over BAT.

The presence of Sir James in the list will cause a special shiver at United Newspapers, publisher of the Daily Express. Conspiracy theorists have long been predicting, despite the lack of hard evidence, that Conrad Black, who owns around 9 per cent of United, would team up with Sir James Goldsmith for a run at Lord Stevens' empire. Any Monopoly Commission problems, the theory goes, could be avoided by Sir James taking the national newspapers and Conrad Black taking the regional titles.

The truth – at least for the moment seems a little more prosaic. Black and Sir James are friends and the Telegraph proprietor seems to like to surround himself with people who are either politically important or financially well-heeled. Lord Carrington already sits on the board of the main Black company Hollinger, as does former US secretary of State Henry Kissinger.

Initiative

■ The Lloyd's of London insurance market's stormy relationship with the press will not be helped by a spoof press release sent out recently on the chairman's headed notepaper. The letter, purportedly signed by Murray Lawrence, Lloyd's current chairman, announces the formation of Lloyd's own investment bank to raise money to help cover

"This is the queue for Western aid."

the market's future losses.

In a conservative place like Lloyd's, where titles are all important, it was "felt that a 'central European cum Levantine' name would suit, such as Goldman Sachs, Rothschild and Schroder". A fraternal suffix, as in Salomon, Baring and Lazard, has been added to give a better ring to it. "Last but not least, the name had to reflect Lloyd's public image as regards professional standing, integrity, skill and financial ability." Hence the new bank will be called Marx Brothers.

Some mistake

■ A quick reading of Sir Alan Walters' typescript about the horrors of the ERM, called "Sterling in Danger," gives disappointingly little away about economic policy-making in the 1980s, and quite a lot away about Sir Alan.

When discussing the "perverse" pseudo-system of the ERM, he makes strange spelling mistakes and even odder comments. "Germany is hardly the dog that wags the ERM tail. As Karl Otto Pöhl must know, it is the tail that dogs the wag."

And while the Cabinet Office is supposed to have gone over the book excising the embarrassing bits, some tart lines escape the red pencil. The author admits that economists are "abysmally ignorant" about the financial markets. Then in brackets: "Perhaps I should add that although economists know virtually nothing, they know more than politicians."

Sir Alan's contempt for politicians does not stop there – although Mr Nigel Lawson does not get the pasting one would have thought inevitable given his D-Mark shadowing crimes in 1987-88. "Humble pie should be the daily diet of ministers and their advisers," he recommends. What about family friends?

Getting closer

■ Any one needing fresh evidence that Midland Bank and the Hongkong and Shanghai Banking Corporation are courting seriously need look no further than the London headquarters of the Hongkong Bank, at 99 Bishopsgate. Its retail branch has been shifted up to the fifth floor and the plush ground floor offices are soon to be occupied by a Midland Bank branch. This sort of integration was not envisaged in the early days of the alliance.

However, the real test of the Hongkong Bank's allegiances would be if it transferred its retail branches in the UK Chinese communities, of London's Soho and Manchester, over to the Midland. To date there is no sign of this happening. Chinese depositors tend to be more nervous types.

RIP

■ Card in the window of a Birmingham shop. "Closing down on account of bereavement. My business died."

Ian Davidson on economic realism versus socialism in France

A chorus of criticism

Most of France laughed last week, when it was revealed that Mr Olivier Stirn, the Tourism Minister, had been forced to hire a couple of hundred unemployed actors to fill the seats at a political meeting. But the Socialist Party luminaries who had been the star speakers at the meeting *were not amused* when they discovered that they had been addressing a paid claque, and Mr Stirn was forced to resign.

The reasons for his resignation go well beyond a trivial question of personal ridicule. In the first place, the incident comes on top of a sharp sag in the public reputation of the French political class as a whole. This is partly a backlash from the amnesty tacked on to last December's party finance bill, partly the result of a diffuse sense that too many politicians are remote careerists with little concern for their electorates.

But the Socialists are suffering, in addition, from a decline in popular support for President François Mitterrand. One factor is no doubt public disapproval of the in-fighting which split the party at its Rennes Congress earlier this spring, and which was precipitated by the hasty ambitions of Mr Laurent Fabius, President's Mitterrand's favourite.

But traditional Socialist Party militants are seizing the pretext to lay the blame on the social-democrat inclinations of the government of Prime Minister Michel Rocard. In the past few weeks, President Mitterrand has been obliquely blaming Mr Rocard for swinging too far from the principles of socialism in pursuit of an excessively conservative economic policy; and the party faithful have been taking their cue from the President.

Mitterrand, left, blames Rocard for straying from the path of socialism in pursuit of a conservative economic policy

Their muttered chorus of criticism has focused increasingly sharply on the theme of social inequality, at both ends of the income scale. President Mitterrand has denounced the inequity of unearned income, which he described picturesquely as money acquired "while sleeping"; and he has called on government and employers to negotiate higher salaries for the least well-off.

Early last month, the socialist deputy Mr François Hollande tabled a report proposing some tightening of taxation of capital assets. His proposals were far from draconian; nevertheless, the Bourse caught the jitters, and the Prime Minister's office felt compelled to *point out that under the* regime of free capital movements, France's capital taxation could not get far out of line with its European Community partners, without provoking a flight of capital.

The Government asserts that there has been a move towards a fairer share of national income

The controversy between the Government and its left-wing critics on the question of equality/inequality has gained new intensity with the publication of the latest official report* on the recent evolution of different income categories in France. Both sides claim to be vindicated. The Government asserts that there has been a move towards a fairer share of national income, and rebukes its opponents for drawing "hasty conclusions from partial figures." Its critics claim that the report shows that the poor are getting poorer and the rich getting richer.

The Government's critics base their argument on a worst-case instance of an employee who remains stuck, *without promotion or seniority* payments, and whose income will have been practically static; the Government argues that almost nobody fits this case. By contrast, there has been a steady increase in real household incomes, of 2.6 per cent last year, partly through promotion and seniority moves, partly through declining unemployment.

On the other hand, the report shows a stark divergence between the trends of earned and unearned incomes. Average wages in the private sector have grown in real terms over the past three years by 1 per cent a year gross, or 0.3 per cent after the deduction of social security contributions. But incomes derived from capital have grown many times faster than this.

The report attempts to measure the returns from various kinds of investments, combining both current income and capital appreciation, and deducting inflation. In the stock market, French shares showed an average performance over the three years 1986-89 of 9.3 per cent a year in real terms, while fixed interest investments gained 4.5 per cent real per year.

Real estate has produced very mixed results. Agricultural land has been a loss-maker over the past three years, showing a combined income-capital decline of 1.9 per cent a year in real terms; the good news for land-owners is that this was better than the 5.2 per cent average decline which characterised the previous five years.

But residential property in Paris has been a terrific winner, showing a real gain of 19.5 per cent a year during the past three years, largely because of the 1986 relaxation of rent controls under the Gaullist government; during the previous five years, the real return on a Paris flat was only 5 per cent a year.

On the face of it, any government calling itself socialist *ought to be vulnerable to these* figures: after many years of "crisis" and wage restraint, is the working class not now entitled to a growth dividend? A recent medium-term assessment# of the French economy, conducted jointly by the Finance Ministry and a clutch of the most authoritative economic institutes, says firmly: no. It concludes that wage restraint remains essential for the sake of the profitability, investment and competitiveness of the corporate sector. Indeed, wage differentials must be *increased* if unemployment (still very high at nearly 2.5m) is to be brought down.

Clearly the Government of Mr Michel Rocard has no difficulty with this line of reasoning. The problem is, what can it say in public to reconcile the imperatives of economic realism and the claims of socialism? In other words, what, in the era of perestroika and the single market, does it mean to be a socialist?

Wage restraint remains essential for the sake of the profitability and competitiveness of the corporate sector

* *Constat de l'Evolution Récente des Revenus en France (1986-1989). Centre d'Etude des Revenus et des Couts. 3 Bd de la Tour-Maubourg, Paris 75007.*

L'Economie Française; Diagnostic à Moyen Terme; Commissariat Général du Plan; Documentation Française; FFr 80.

Privatising eastern Europe

Making it safe for capitalism

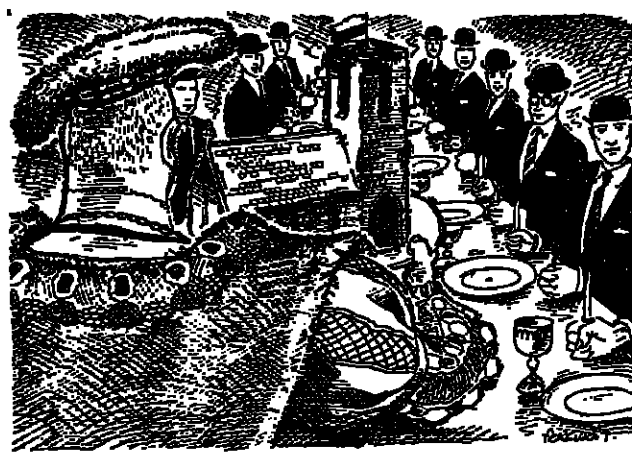
Olivier Blanchard and **Richard Layard** on the lessons to be learned from Henry VIII

Eastern Europe is becoming capitalist. Or is it? On present plans privatisation will be dangerously slow. The reason is simple. Governments (egged on by foreign stockbrokers) want to get the "right price", and few people in eastern Europe have the wealth to afford it.

This slow pace greatly adds to the political uncertainty of the region, increasing the risk of a tragic end to the reform process. If capitalist governments want to establish capitalism in a way that is irreversible, they need to create millions of capitalists – and to create them fast. In other words they should give the nation's capital to its citizens, for free.

In this respect Henry VIII knew what he was doing. When he wanted to abolish the Catholic church irreversibly, he gave away its property to everybody who mattered. Today that means giving it to every voter.

But how clearly can this be done, and what are the objections to it? Clearly there is huge uncertainty about the value of almost every enterprise in eastern Europe. In fact some enterprises have negative value. So fairness requires that every citizen be given a share in every enterprise. This can only be done through holding companies. Enterprises should be grouped into, say, five holding companies and every citizen be given shares in every holding company.



These shares would be traded and the daily publication of the holding company's price would put pressure on the holding company managers to secure the best use of the capital which they controlled. The managers' pay would also be performance-based.

But the holding companies should not last for ever. Their job would be to reorganise the enterprises, establishing efficient management, and then progressively sell them off over a 10-year period – distributing the proceeds to their shareholders. Since citizens would now own substantial private wealth (in holding company shares), there should be no difficulty in finding buyers for the reorganised enterprises, willing to buy at the right price.

There should also, of course, be sales to foreigners. If these were made by holding companies, the proceeds would go directly into the pockets of the citizens. This should greatly ease the political problem of selling to foreigners. Contrast it with the normal situation where the proceeds disappear into the Treasury and citizens feel no direct gain.

This approach combines two essential desiderata. First, private ownership needs to be established fast – in order to generate the right incentives in the system and (perhaps) in order to make sure that we get there at all. But at the same time there must be a prolonged period during which enterprises are reorganised and eventually sold into the hands of direct private owners, domestic or foreign. Restructuring too fast would only increase unemployment to intolerable levels.

So what are the objections? We have encountered four. First, "people ought not to get something for nothing." From an ethical point of view this objection makes no sense, since the people have already paid for the nation's capital in past taxes. From an efficiency point of view, it is of course desirable that capital be managed efficiently. But this is a matter of organisation. The Abbey National will not be better or worse run because so many of its shareholders got their shares free. What matters is that there are enough major shareholders to be able to sack the managers, or that there be a takeover mechanism. Here the holding company device is a good interim method of ensuring a major shareholder. The alternatives are control by *nomenklatura* members, who have had the time and the opportunity to accumulate wealth, or by foreign firms.

The next obligation is that "the government cannot afford to give the stuff away." It is true that east European countries have primitive tax systems and negligible bond markets. Privatisation proceeds would therefore help to finance government expenditure without printing money. But the scope for such proceeds is minute. In Poland the whole of accumulated private savings equals roughly 10 per cent of one year's national income. So the potential annual flow of domestic privatisation proceeds is very small. Lending people the rest of the purchase price does not affect this argument, and adds an unbearable administrative burden of debt collection. If capitalism has to be postponed until it is "affordable", it will have to be postponed into the next century.

There is, however, a genuine public finance point. A part of present government revenue comes form the dividend of state-owned enterprises. But, in Poland at least, this is both small and irrationally distributed between enterprises. The same revenue could be readily raised some other way. The same point relates to macro-economic control. If people's capitalism made people feel richer and consume more, there are other instruments to offset the inflationary results of such a welcome uplift.

Next, there is the worry about wealth distribution. If everyone gets shares, poor people will sell them early on at low prices, to feed their families, while richer people accumulate shares which appreciate in value as economic performance improves and financial markets thicken.

No doubt this will happen. But what are the alternatives? If all shares are sold, the poor will receive nothing, not even towards their groceries. And capital gains will still go to the rich – unless public ownership is prolonged for decades and there are thus few capital gains. Another possibility is to give shares to the workers. This is of course manifestly unfair. It gives nothing to nurses, teachers or any worker who remains publicly employed. And it gives wildly varying amounts to those workers who get anything. It is also unlikely to promote the efficient redeployment of economic activity (in so far as workers are enabled to appoint and dismiss managers).

But if the alternatives are poor, it is still important to think of safeguards. One very important safeguard could be this. Equal numbers of shares are given to everybody including children but children cannot sell theirs. In this way the young adults of the next century would enter adult life with a solid birthright and the independence it brings.

Would foreign creditors object if the governments of eastern Europe pay little interest, yet give away their assets? We hope not. For the creditworthiness of eastern Europe depends on whether their economies are working. They will not work unless they establish private ownership, and do it fast. The only way to do this is to establish people's capitalism. Remember Henry VIII and the monasteries.

Professor Blanchard is from MIT and Professor Layard from the Centre for Economic Performance at LSE. Their essay on eastern Europe will be published on July 19 by the Centre for Research into Communist Economies.

LETTERS

CGT on housing equity withdrawal

From Mr John Muellbauer.

Sir, Anatole Kaletsky's article ("Home truths on housing market,") June 29 is marred by a factual inaccuracy but in other respects deserves widespread consideration.

He claims that "house prices rose no faster than earnings during the 1980s, apart from the brief speculative blow-off last year." The fact is that average UK secondhand house prices, using the Environment Department's mix adjusted index and comparing the first quarter of 1990 with the average of 1980, are 184 per cent up. Average earnings for Great Britain (from Economic Trends) show an increase of *126 per cent* over the same period. On this basis, the house price earnings ratio needs to fall by one quarter to restore the 1980 level. Also the speculative blow-off was far from brief and not centred on 1989.

However, Mr Kaletsky is right to emphasise the importance of financial liberalisation in explaining the consumer boom. Joint research with Anthony Murphy suggests that the consumer boom cannot be explained just by the rise in financial and physical asset values. The effective spendability of illiquid assets increased. This is another way of describing the increased availability of credit advanced on the basis of housing collateral which he analyses.

Mr Kaletsky's proposal to charge Capital Gains Tax on equity withdrawal is most interesting. This could work as follows. An owner-occupier who stays in the same house but increases the mortgage by more than the CGT exemption limit would be taxed at 25 per cent on the debt increase (indexed to the Retail Price Index) over the limit or at 40 per cent for higher rate taxpayers. An owner-occupier who trades up or down would be taxed on mortgage increase plus (sale price minus purchase price) minus RPI indexation minus exemption limit. First-time buyers, by definition, cannot be withdrawing equity and are not directly affected.

The tax can be made more or less effective by treating the CGT exemption limit in different ways. An effective version of the tax would lump the housing equity withdrawal together with other forms of taxable gains. So, an expansion of debt would mean the CGT net draws tighter on other realised capital gains. A less effective form of the tax would give housing its own CGT exemption or would raise the overall CGT exemption limit.

Mr Kaletsky's suggestion is clearly greatly preferable to Mervyn King's and Peter Spencer's suggestion of bringing housing into the CGT system but with roll-over relief. Here CGT is charged on (sale price minus purchase price) minus RPI indexation minus exemption limit. This would not create any disincentive against additional borrowing but only discourage trading down. The merit of Mr Kaletsky's proposal is that it discourages borrowing as well as the realisation of gains by trading down.

The critical objection against CGT even with roll-over relief is that it discourages the release of residential property and land. The Kaletsky proposal is open to a similar objection. It has been argued that the scale of Japan's remarkable land price boom owes a substantial amount to the Japanese CGT.

The economic problems caused by the institutional environment in which housing is provided in the UK are wider than equity withdrawal and excessive consumption. They are explained in the Institute for Public Policy Research's forthcoming Economic Study No 5, where I put forward a package of policies to deal with them. If these are rejected by the policy makers, Mr Kaletsky's proposal is still better than doing nothing to restrain consumers. Without new policies, entry into the exchange rate mechanism (ERM) is likely to prove very painful for the rest of the economy.

John Muellbauer,
Nuffield College, Oxford

'Anything but a marriage of convenience'

From Lord Weinstock and Mr K.H. Kaske.

Sir, Charles Leadbeater's article ("A marriage of convenience," July 3) is riddled with inaccuracies and wrong conclusions.

It alleges that we "carried off an elaborate con trick" on the Monopolies and Mergers Commission and the European Commission in that we did not intend to fulfil the strategic vision which we had stated was our intention. The article further contains various allegations from which it is to be inferred that relations between us have deteriorated such that the strategic alliance between the companies in Europe has been put in question. These allegations are without foundation.

The suggestion that GEC and Siemens are not fully committed to the joint ownership and development of GPT, by far and away the largest Plessey interest which we acquired, is totally false. Both our companies believe our continued relationship in GPT forms the basis for significant co-operative advances in research and development and a successful future for the British telecommunications industry on a global scale. This commitment to continued joint ownership is anything but a marriage of convenience.

Weinstock,
Managing Director,
GEC,
1 Stanhope Gate, W1
K.H. Kaske,
President and Chief Executive,
Siemens AG,
Wittelsbacherplatz 2,
Munich

Poor timing for a public spending plea

From Mr Michael Moore.

Sir, If in the 1960s Mr Ivor Owen (Letters, July 4) had advocated six-year engineering degree courses to include the effects of design on the economy, the environment, health, aesthetics or almost anything else, the money could have been made available by the Government at the drop of a hat. Nowadays Mr Owen is whispering in a hurricane of 200-year-old anti-public spending prejudices and policies.

Michael Moore,
58 The Ridge,
Marple, Cheshire

Regulators merger 'may result in even greater confusion'

From Mr Alwin Tamosius.

Sir, Deborah Hargreaves reports (June 29) that the justification of the Association of Futures Brokers and Dealers (AFBD) and the Securities Association (TSA) for their proposed merger is to provide cost savings to large firms and to reduce bureaucracy. If that is so, perhaps you should question why they were established separately in the first place.

In my view the motive for merger is not primarily the desire to make life easier for members (the endless stream of rule changes by both organisations proves otherwise), nor even to provide a more effective regulatory body to protect the interests of investors. Rather the merger is driven by the inefficient internal operations of both self-regulating organisations (SROs) resulting in poor utilisation of resources and unreasonably high membership charges.

I am not persuaded that the combination of two inefficient bureaucracies will result in a single efficient one. Instead I foresee even greater confusion when divergent departments of the combined SRO attempt to reconcile inevitable conflicts in the new rule book, especially on financial rule requirements.

Although not mentioned by Ms Hargreaves or in the SROs' joint press release, the "merger" will most likely comprise a complete absorption of the AFBD by the TSA. If this happens then representation within the regulatory establishment of interests of members engaged primarily in futures and commodities activities, which is already quite weak under present arrangements especially for small firms, will be non-existent.

As a director of a member of both SROs I therefore do not automatically participate in the "welcome by members" that the article assumes. Although I agree with the stated goals of the proposal, I do not believe they will be any more achievable with a merger, or absorption by one SRO of another, than they are under separate organisations.

Alwin M. Tamosius,
Director/Compliance Officer,
Securities and Commodities Investments,
Leconfield House,
Curzon Street, W1

FINANCIAL TIMES
Wednesday July 11 1990

Mobil to mop up 14.5m gallons of oil from New York

By Alan Friedman in New York

MOBIL, the big US oil company, has agreed to embark upon a multi-million dollar clean-up of up to 14.5m gallons of oil that for four decades has been seeping hazardously into a most improbable site - the ground beneath the streets of Brooklyn.

The company said yesterday that it had signed an agreement with New York State under which it would try to recover the leaked oil, which has seeped from Mobil product terminals, by drilling a series of wells in the Greenpoint area of Brooklyn.

It is estimated that the leaked oil - a mixture of petroleum products such as home heating fuel, petrol and kerosene - totals as much as 14.5m gallons. If so, there is more spilt oil in pools and deposits beneath Brooklyn than was spilled in last year's Exxon Valdez disaster (11m gallons), off Alaska.

The oil, which has been found in deposits ranging from 10 to 40 feet below street level, has already contaminated the groundwater and could lead to other types of pollution in Brooklyn.

However, despite signing the consent agreement, Mobil has not taken official responsibility for the leaks.

The company said it could not estimate the cost of the clean-up, but it is thought that it will cost at least $5m.

The agreement was negotiated by Mobil and New York State authorities after years of debate between the two parties. The first attempt by Mobil to recover some of the oil occurred in 1979 when the company drilled a remedial well in Greenpoint.

Mobil said yesterday it plans to drill 22 observation wells and between four and six remedial wells in an exercise that will take "many, many years."

Hopes rise for Albanian refugees

By Judy Dempsey, East Europe Correspondent, in London

DIPLOMATS were cautiously optimistic yesterday that 6,000 refugees camped in several embassies in Albania's capital, Tirana, would be allowed to leave the country this week.

At the same time, in an effort to avert further unrest, Albanian authorities issued a decree to modify the country's inflexible wage system and introduce unemployment insurance.

The Italians, with more than 600 refugees in their embassy, expect to transport them over the next few days on the ferry between Durres and Bari in southern Italy.

West German officials, whose embassy is packed with 3,000 refugees and where conditions have been described as "catastrophic," said yesterday they hoped the refugees would begin receiving their passports this weekend. They will start submitting passport applications to the Albanian authorities today. The first signs of a break in the week-long deadlock following a stampede by young Albanians into embassy compounds, occurred on Monday night after the Czechoslovak authorities were given permission to fly out two women and 49 men to Prague.

Mr Jiri Dienstbier, the Czechoslovak Foreign Minister, said most of the refugees wanted to go to the US.

The Czechoslovak news agency said the Czechoslovak authorities in Prague had given guarantees to Mr Steffan de Mistura, the United Nations envoy in Albania, that it would not publicise any information about how the refugees were transferred to other countries.

● Six Albanian dissidents who fled the country in a motor boat arrived in Italy yesterday and requested political asylum, police said, Reuter reports.

Asylum seekers no country wants

The Government may let them go, but where? asks Judy Dempsey

THE Albanian authorities are under pressure from the thousands of asylum seekers to allow them to leave the country. But the refugees have nowhere to go. Nor does any country really want them.

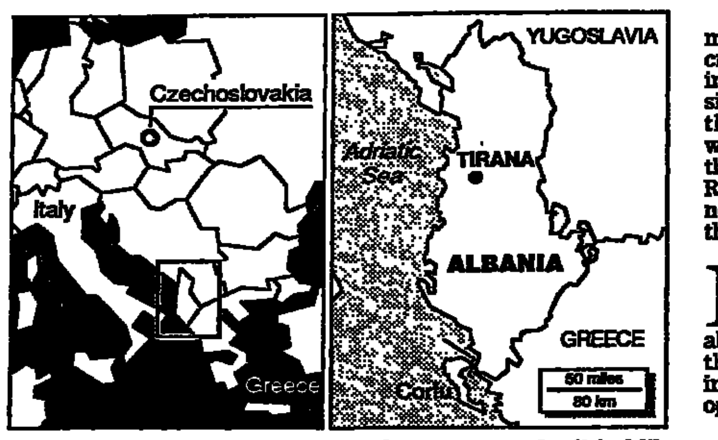
This is the dilemma facing western foreign ministries as they prepare visa papers for the 6,000 refugees camped in squalid conditions in the embassies. If western countries agree to take them, diplomats fear a second wave of émigrés.

It is a possibility which cannot be ruled out by the 12 member states of the European Community, several of which have diplomatic relations with Albania. There are voices within the EC advocating some kind of quota system, but the European Commission is not in a position to fix quotas on émigrés since this is still a matter for individual states.

At the weekend, Mr Hans Dietrich Genscher, the West German Foreign Minister, said Bonn would accept the 3,000 refugees in its embassy in Tirana, adding that other countries should do likewise. But earlier this week, EC diplomats indicated they wanted to distinguish between "political" and "economic" refugees.

"The truth is that some of these people (the refugees in the embassies) cannot read or write," one senior diplomat commented. The Albanian authorities last week described the asylum seekers as "hooligans," and "vagabonds."

Those camping in the embassies include families. But the majority, according to diplomats, are young people.



Prospects for youth in Albania are grim. With the exception of the neighbouring Yugoslav province of Kosovo, Albania, predominantly Moslem, has one of the highest birthrates in Europe (26 live births per 1,000 inhabitants).

More than half the population ekes out a living by working on collective farms, while industry, which consists largely of chemicals and chrome, remains under-developed and starved of capital investments. Such an economic outlook possibly explains the stampede into the embassies by young people in search of a brighter future.

"People want to get out because they see no reason to remain in a country which offers no economic prospects and no prospect of political liberalisation," a western diplomat commented. "We have no idea how many more will want to leave."

The Albanian authorities, for their part, may feel a certain relief in allowing these people to leave. Exporting disaffected youth could ease the growing unemployment/underemployment problem facing the leadership. As the authorities liberalise their travel laws, the burden will fall on western countries.

So far, the West German, French and Greek governments have said they are prepared to take the refugees in their embassies. It remains unclear if the Albanians will settle in these countries. The 51 refugees who arrived in Czechoslovakia earlier this week say they want to go to third countries.

But unlike the East Germans, who last autumn crammed in their thousands into the West German embassies in Budapest and Prague in the knowledge that Bonn would willingly allow all of them to settle in the Federal Republic, the Albanians have no comparable support from the international community.

MOREOVER, because Albanians were banned from travelling abroad over the past 50 years, the diaspora is too small to influence international public opinion.

The largest Albanian community is in neighbouring Yugoslavia. But the 2m-strong ethnic Albanian community, which was incorporated into Serbia in 1913, tend to perceive themselves as Yugoslav first and Albanian second.

Furthermore, because of attempts by Serbia, Yugoslavia's largest republic, to erode the autonomy of the ethnic Albanians in the country's southern province of Kosovo, the local people are understandably more interested in defending their own rights than those of their neighbours in Albania.

The second-largest Albanian community is in the US. Many of the 150,000 or so who live in New York, Boston, Wisconsin and Detroit, left Albania before the Second World War. The remaining Albanian communities are scattered throughout Europe and Canada.

Walters launches fresh attack on EMS

By Rachel Johnson and Philip Stephens in London

SIR ALAN Walters, former economic adviser to Mrs Margaret Thatcher, Britain's Prime Minister, will launch a stinging attack later this month on the UK Government's plans to take up full membership of the European Monetary System.

He will also present an alternative to the Treasury's plans for a parallel European currency based on the European Currency Unit by urging instead the creation of a new "Thatcher standard," based on world commodity prices.

The proposals, in his latest book "Sterling in Danger," will be seen as a last-ditch attempt to halt the Government's progress towards membership of what Sir Alan terms the "perverse" system of the Exchange Rate Mechanism – which he insists is "anathema and inherently flawed."

In the markets, traders have been concerned that "Sterling in Danger" could upset the pound as it nears the DM3 barrier.

Sterling rose to a two-year high of DM2.99 on foreign exchanges yesterday. More investors were buying the currency on the assumption that the authorities were content to allow the pound to rise even further prior to entering the ERM. It closed at 94.1 on its trade-weighted index, with traders reporting that a bigger rise had been prevented only by profit-taking and a stronger D-Mark.

The book's publication, scheduled for the end of the month, has prompted concern in Whitehall because Sir Alan retains close contacts with Mrs Thatcher. The book was not finished until very recently – April at the earliest. Since his role as an adviser prompted the resignation of Mr Nigel Lawson from the post of Chancellor of the Exchequer last year, he has continued to visit Downing Street as what Mrs Thatcher calls a "family friend."

Mr John Major, Chancellor of the Exchequer, has secured Mrs Thatcher's reluctant agreement to take sterling into the EMS exchange rate mechanism and has welcomed the pound's surge on the foreign exchanges in the expectation of the move.

While playing down the possibility of an initiative in the next few weeks, Mr Major said last week that "the Rubicon has been crossed." He flatly rejected Sir Alan's past criticisms and said he had made it clear that Britain would join. "That is not just my idiosyncratic view, that is the view of the British Government. It is our agreed policy."

Sir Alan makes no attempt to disguise his contempt for the system. "Pseudo fixed exchange rates are accompanied by a pseudo monetary policy. Both are indeed half-baked," he says.

The Treasury and Bank of England yesterday indicated they had not seen the book, which the author hopes will intensify the debate about the disadvantages to the UK of joining the ERM. Copies, however, have been circulating unofficially in Whitehall and the final draft has been vetted by the Cabinet Office.

A chapter of the book is devoted to the presentation of an alternative to the ERM, another "competitor in the field." The "Ecom" – European commodity money – would be based on preserving constant the unit of account for a wide basket of commodities. This new "Thatcher standard," he indicates, might be adopted by the US and Japan.

Although Sir Alan hopes his contribution will add to the ERM debate, his arguments have been well rehearsed in both lectures and past books.

Lex, this page

THE LEX COLUMN

A merger wave in French water

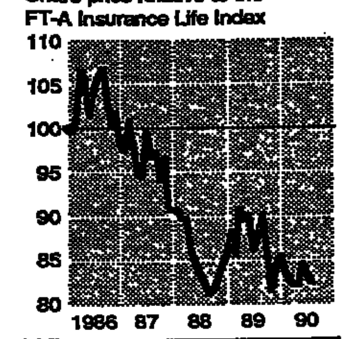
There had to be an end to the headlong run which Lyonnaise des Eaux has enjoyed on the Paris Bourse since last October. Its environmental credentials and its stake in West German cellular phones had both been amply discounted in Monday's closing price of FFr702, or about 24 times likely 1990 earnings. But few could have expected Lyonnaise to produce the merger plan with Dumez, one of France's two largest construction companies along with Bouygues.

Granted, linking water and construction is nothing new in France, as exemplified by the control Bouygues wields over Saur. But Lyonnaise came out of the building business in 1980. And though Dumez may gain from access to Lyonnaise's water contacts in France and the UK, it is debatable whether Lyonnaise's shareholders want exposure to Dumez's US electrical and building materials distributor.

One presumes that the two biggest Lyonnaise shareholders, the conglomerate Compagnie Financière de Suez with 18 per cent and the insurer UAP with 10, have approved the idea. But a sharp drop in Lyonnaise's shares will not help Suez's share price, especially given the fall yesterday at the Accor hotel chain where Suez is also a big holder.

Prudential

Share price relative to the FT-A Insurance Life Index



Prudential

It would be wrong to rubbish the concept of financial institutions creating estate agency networks to sell insurance and loans simply because Prudential made such a mess of it. Some other insurers, like Sun Alliance, have fared much better by buying fewer estate agents or choosing more wisely. As for banks, the 400-strong Lloyds Black Horse chain was in the red last year; but only by £4m, compared to the £49m lost by Pru's 750 outlets. The scale of those losses - £66,000 per branch - suggest that in large part the Pru's problems were self-inflicted.

That raises questions about just how well the Pru has been run since its £357m rights issue in 1986. Of the two big items of expenditure, £405m on Jackson National Life in the US and £280m on estate agents, the former is successful in sales terms but the latter has been poorly handled. Equally worrying are things the Pru has not done. It has not divested Mercantile & General, its reinsurance business, whose non-life side produced pre-tax losses of £29m last year. Its continental European life business is so paltry that the annual report lumps it into "other countries", accounting for 4 per cent of global premiums.

The Pru's redeeming qualities are the strength of its life fund and its UK dominance. Hence the shares may be undervalued at 227.5p, on a prospective yield of 6 per cent plus. Given that its payout is 1.4 times covered by life assurance profits and that sales have surged with the UK's personal pensions revolution, dividend growth looks safe. But in terms of positioning the Pru as one of the world's major life assurance organisations, its new management still has a lot to do.

Accountants

It seems that accountancy firms, like sharks and love affairs, must keep moving forward to survive. Not long ago there were the big eight; now we are down to the big six. But a more concentrated accountancy profession is not necessarily a more efficient one. The rationale for the merger of Touche Ross and Spicer & Oppenheim's UK business is not cost savings, which are likely to be fairly small. And if there are synergy benefits, they are unlikely to be passed on in the form of lower fees.

Big is currently beautiful in accountancy because it is believed that only large international firms can attract multinational clients. Boutique firms may be able to offer specialist services; but medium-sized firms like Spicer, already suffering from the concentration of its clients in the financial services sector, may be left in the cold. But it is strange, considering the debate in the profession about brand valuations, that nothing has been done to maintain the value of Spicer's name in the UK.

Whether clients actually want all-singing, all-dancing accountants advising on everything from ADRs to zero coupon bonds is another matter. They have shown little enthusiasm for other broadly-based financial services groups. And shareholders may question the independence of auditors who have lucrative consultancy and corporate finance contracts with their clients.

Walters

Despite the general conviction that Britain's entry into the ERM is a done deal, the markets still keep a weather eye out for Sir Alan Walters. However close Mrs Thatcher may be to agreement, Sir Alan lurks like a rogue elephant ready to carry her off again. But the anxiety seems misplaced. If Sir Alan's views still held any kind of sway, the Government could never have come as far as it has.

As laid out in his latest book, his thesis is largely familiar. All quasi-fixed exchange rate systems, from Bretton Woods to the ERM, fail by their own terms of reference. A true fixed system would only work as well as the Germans could be trusted to run it. If floating rates are not to be permitted, let a fixed system be devised in which everyone's monetary autonomy is abolished altogether, rather than consigned to the Bundesbank.

The attack on the ERM has a certain force. Since 1979, it is argued, inflation in the member countries has come down more slowly than in the rest of the OECD, while economic growth has been slower. The advantages of exchange rate stability within the system have been more than offset by greater volatility against other currencies. And ultimately, it is claimed, the system has relied on covert exchange control by member states to hold it together.

It can scarcely be denied that a fixed rate system would be German-controlled; that is largely the point of it. Sir Alan's alternative has similarities to Mr Major's hard Ecu, being a thirteenth currency which would act as a control on the others. The difference is that, being based on a basket of commodities, it would have a life independent of any member state. To be fair, the idea is offered by way of example; but it has a cranky ring to it. And above all, no theory with a UK origin has a hope of being considered unless the UK belongs to the system in the first place.

Publishers move to block Dat

Continued from Page 1

the number of Dat recordings that the owner of a CD could make.

Mr Cahn stressed that songwriters and publishers had brought their action to obtain an adequate level of compensation for pirated recordings, rather than to prevent the sale of Dat recorders indefinitely. "It is very important for everyone to understand that we are not trying to halt the progress of technology," he said.

Mr Edward Murphy, president of the National Musical Publishers Association, which is backing the action, said that copyright holders had always been willing to reach a compensation agreement with the manufacturers of Dat recorders. "That policy is not changed one bit by the lawsuit," he said.

French merger proposal

Continued from Page 1

lec, a French electrical distributor, plus a two-thirds stake in CGE Distribution, formerly controlled by Compagnie Générale d'Electricité.

Lyonnaise des Eaux is far more diversified than Dumez. Just over half its turnover comes from water distribution, with the rest in a wide range of businesses from funeral services to waste disposal.

A merger would be a change of tack for Mr Jérôme Monod, chairman, who only recently said construction was foreign to his group's business vocation.

Nicaraguan reforms at risk as troops move to confront strikers

By Tim Coone in Managua

THE FUTURE of Nicaragua's economic stabilisation programme hung in the balance yesterday as President Violeta Barrios de Chamorro ordered troops onto the streets to confront students and workers who had set up barricades and seized workplaces in support of a general strike.

The strike was called in support of wage demands to combat steep price rises, an essential component of the Government's economic adjustment policy.

But Mrs Chamorro has labelled the strike "a subversion of public order which violates the constitution," and has justified the use of troops because the police could not cope on their own.

The US State Department said the strike was a political effort by the Sandinista opposition to undermine badly needed economic recovery.

"The Sandinistas mismanaged Nicaragua's economy for 10 years, leaving it in disastrous straits. Now, for political gain, they are seeking to blame the government for taking the reform measures necessary to clean up the mess," it said in a statement.

Asked if Washington had any particular plan to see Chamorro through the emergency, administration sources said only that they were monitoring the situation closely.

Since Monday at least four people have been reported killed and dozens injured as a result of right-wing supporters of the Government firing on strikers' picket lines in the capital, Managua.

Yesterday, urgent behind-the-scenes contacts were in progress between the Government and Sandinista leaders who handed over power on April 25. However, it is not clear how much control the former rulers can exercise over the strikers even if the latter are invoking their name.

Trade union and student leaders yesterday called upon the Government to return to the negotiating table, but there was growing concern that the violence might now escalate.

Large quantities of weapons still circulate unofficially in the country even though the "Contra war" was finally brought to a close last month with the demobilisation of the Contra army.

The army and police both have officers identified as Sandinista sympathisers. Should they refuse to obey Mrs Chamorro's orders to break up the strike and protests, the Government will be faced with an impossible situation of having no law-and-order forces to call upon for support other than the demobilised Contras, who are also believed to have arms caches in the mountains.

The alternative will be to bow to the unions' demands. This is equally unpalatable because it would torpedo the Government's entire economic programme. A tough stabilisation policy has also been one of the planks on which impoverished Nicaragua has been seeking foreign assistance.

The crisis broke over the weekend when ministers rejected trade union demands – including substantial pay rises and a halt to the Government's privatisation programme – and declared illegal an escalating series of stoppages. The strikes began last week in government offices and state-run factories.

Anyone participating in or encouraging strikes has now been threatened with dismissal and arrest.

Mrs Chamorro took office at the head of a fractious 14-party alliance last April, having defeated the Sandinistas by a 14 per cent margin at the polls. Her economic team promised to halt inflation within 100 days but since then sharp currency devaluations and swingeing rises in the cost of public transport, petrol and public utility tariffs have again sent prices soaring.

The confrontation deteriorated on Monday when Managua was paralysed as armed riot police escorted bulldozers to break down barricades.

Students occupied the national radio station. The state-run television station was stormed by police on Monday night and forced to cease transmissions after employees took control and began broadcasting revolutionary songs and reports on the general strike.

WORLDWIDE WEATHER

		°C	°F
Ajaccio	S	25	78
Algiers	–	–	–
Amsterdam	F	16	61
Athens	S	30	86
Bahrain	S	38	100
Bangkok	F	32	91
Barcelona	S	29	84
Beirut	–	–	–
Belfast	F	16	61
Belgrade	S	31	88
Berlin	C	17	63
Biarritz	F	20	68
Bombay	C	29	84
Bordeaux	S	21	70
Boulogne	C	17	63
Brussels	F	15	59
Budapest	C	20	68
Buenos Aires	R	17	63
Cairo	S	35	95
Cape Town	F	16	61
Caracas	C	27	82
Casablanca	S	25	77
Chicago	F	21	70
Cologne	F	12	55
Copenhagen	F	17	64
Corfu	S	28	84
Dallas	S	25	77
Dublin	C	17	63
Dubrovnik	S	27	81
Edinburgh	F	16	61
Faro	S	29	84
Florence	S	31	88
Frankfurt	F	16	60
Geneva	S	21	70
Gibraltar	S	25	77
Glasgow	C	15	59
Helsinki	F	20	68
Hong Kong	–	–	–
Innsbruck	C	13	57
Inverness	C	16	61
Islamabad	F	31	88
Istanbul	F	27	81
Jakarta	C	32	91
Jersey	S	17	63
Johannesburg	S	12	55
Lima	C	17	64
Lisbon	S	30	86
London	C	17	63
Los Angeles	S	18	64
Luxembourg	F	15	59
Madeira	S	22	73
Madrid	S	33	93
Majorca	S	29	84
Malaga	S	30	86
Malta	S	27	82
Manchester	C	13	57
Manila	C	31	88
Melbourne	C	12	54
Mexico City	–	–	–
Miami	F	27	81
Milan	S	27	82
Montreal	S	18	66
Moscow	C	20	68
Munich	F	17	63
Nairobi	S	22	72
Naples	S	27	82
Nassau	R	31	88
New Delhi	C	31	88
New York	C	23	75
Nice	C	23	75
Nicosia	S	29	84
Oporto	S	22	73
Oslo	F	17	64
Paris	C	18	65
Peking	F	28	84
Prague	F	17	64
Reykjavik	F	11	52
Rhodes	S	26	79
Rio de Janeiro	C	30	86
Rome	S	27	81
Salzburg	C	12	55
San Francisco	S	12	55
Seoul	F	31	88
Singapore	R	26	79
Stockholm	S	16	61
Strasbourg	C	16	61
Sydney	S	13	57
Taipei	C	32	90
Tangier	S	32	91
Tel Aviv	S	28	84
Tenerife	S	27	81
Tokyo	C	23	75
Toronto	S	20	68
Tunis	S	32	90
Valencia	S	27	82
Venice	F	26	79
Vienna	R	16	61
Warsaw	C	18	66
Washington	F	28	84
Zurich	F	17	63

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday July 11 1990

INSIDE

Morris outlines Swiss confection

Philip Morris yesterday published its tender offer for the Swiss chocolate and coffee group, Jacobs Suchard. The US group will pay SFr3.16bn ($2.26bn) for Colima, the holding company which controls Europe's biggest roasted coffee business and second largest chocolate and confectionery operation. Page 18

Arrivals and departures

The departure lounge at Milan airport has had its share of commercial bankers passing through recently. They have been packing their bags as a result of poor Italian lending margins, and retrenchment at their head offices. However, investment bankers in equal number have been streaming off planes to take their places. At first sight, reports Haig Simonian, it is rather a puzzle why banks such as Morgan Stanley, S G Warburg, N M Rothschild and Schroders have scrambled to open in Milan. Page 22

Helsinki seeks share revival

The Helsinki Stock Exchange is in a viscious circle. The Unitas share index has dived and climbed and dived again since peaking at over 800 in April 1989. Last Thursday the index continued the current downward swing registering a 1990 low of 537.0. While stock exchange turnover figures for the first six months of the year offer little optimism, Finnish stockbrokers are busy debating the measures and events which could stimulate a revival. Back page

Poulenc buys its way forward

Rhône Poulenc has been on a spending spree. In 1989, the French state-owned chemicals group spent FFr12.4bn ($2.24bn) on acquisitions to steer itself away from the areas of the chemicals industry most vulnerable to swings in the world economy. It is now putting a firmer emphasis on speciality chemicals including healthcare products, agrochemicals, and fibres. All of these are reckoned to be generally immune from the sudden falls in prices and profits which can affect plastics and petrochemicals. Peter Marsh and William Dawkins report. Page 19

Porter Chadburn ahead 69%

Porter Chadburn, the UK upholstery, packaging and consumer leisure products group, yesterday unveiled a 69 per cent advance in both turnover and pre-tax profits for the year to March 30, buoyed by first-time contributions from new acquisitions. The figures mask something of a second-half slowdown in the group's fabric and finishing equipment distribution businesses, however. Profits for the six months to September 1989 had soared fully 92 per cent. Page 25

Market Statistics

Base lending rates	34	London traded options	22
Benchmark Govt bonds	21	London tradit. options	22
FT-A Indices	22	Managed fund service	30-33
FT int bond service	21	Money markets	34
Financial futures	34	New int. bond issues	22
Foreign exchanges	34	World commodity prices	26
London recent issues	22	World stock mkt indices	35
London share service	27-29	UK dividends announced	23

Companies in this section

Abbott Labs	20	Jacobs Suchard	18
Amro	18	Kingsgrange	24
Asko	18	La Générale	18
Atkins Brothers	25	Larsen and Toubro	19
BTP	25	Leica	24
Belcofi	18	Leucadia National	23
Bell Group	20	Magna Int'l	20
Braithwaite	24	Manville	20
Christie Group	24	Metal Closures SA	20
Deckel	18	Molins	23
Digital Equipment	20	Nomura Securities	22
Empire Stores	25	Norfolk House	24
Engelhard	18	Oriflame Intl	25
Evans of Leeds	24	Philip Morris	18
Fininvest	18	Porter Chadburn	25
Galaries Lafayette	20	Reliance Industries	19
Gardiner	23	Rhône-Poulenc	19
General Electric	20	Sea Containers	25
Générale de Banque	18	Seton Healthcare	23
Gibbon Lyons	24	Siemens	20
Globe Investment Tst	23	Sims Food	24
Howden Group	23	Telekom	19
International Paper	20	Texas Instruments	20
Isle of Man Steam	25	Wassall	20

Chief price changes yesterday

FRANKFURT (DM)			
Falls			
Asko	966	–	9
Commerzbank	295	–	5
Deutsche Bk	816.5	–	9.5
Dresdner	446	–	3
RWE	491	–	4
NEW YORK ($)			
Rises			
Apple	47	+	⅜
Dupont	37⅜	+	¼
Wal-Mark	33¼	+	½
Falls			
Lotus Dev	32⅞	–	⅜
Pitney Bowes	43½	–	6⅜
Polk Audio	9½	–	¾
PARIS (FFr)			
Falls			
Accor	1010	–	45
Elf Aquitaine	638	–	12
Lafarge	447	–	8.5
Peugeot	722	–	10
Saint Gobain	541	–	18
Thomson	113.3	–	10.7
TOKYO (Yen)			
Rises			
Nippon Muki	1550	+	190
Oval Eng.	1210	+	170
Rasa Inds	1140	+	100
Saitama Sari	1100	+	101
Sasaki Glass	1300	+	120
Falls			
Tanseisha	5050	–	350

LONDON (Pence)			
Rises			
AtkinsBros	178	+	21
Attwoods	530	+	12
Cable & Wire's	530	+	6
Dixons	139	+	6
Empire Stores	90	+	5
Gibbon Lyons	118	+	10
Hawker Sidd	615	+	10
Molins	291	+	12
Priest Marians	210	+	7
Falls			
BP	317	–	4
Burmah	631	–	9
Caledonia Invs	366	–	11
Fairbriar	12	–	5
Gen Accident	527	–	9
Granada	231	–	18
Laing (J.) A	285	–	7
Racal Telecom	357	–	6
Redland	597	–	7
Trafalgar Hse	288	–	15
THF	290	–	10
Ultramar	334	–	8

Bridel dairy group sold to its arch rival Besnier

By George Graham in Paris

MR EMILE BRIDEL, the patriarch of the French camembert business, is to sell his family dairy company to his arch rival, Mr Michel Besnier, in a deal estimated by analysts to be worth between FFr1.5bn and FFr2bn ($361m).

The sale of Bridel, for an undisclosed price, will create France's leading dairy group, with sales that totalled FFr17bn last year and which are expected to reach FFr20bn this year. Its market share in France will reach 16 per cent in cheese and 24 per cent in butter and retail milk.

Bridel made net profits of FFr101m last year on sales of FFr5.5bn.

When Mr Bridel put the company up for sale earlier this year, he immediately attracted interest from a number of foreign dairy groups. Mr Bridel, who took back the chairmanship from his son Olivier last year, appears to have decided, however, to bury the hatchet with his fiercest competitor. Besnier is not only French, but also family-owned.

Bankers familiar with the deal say that Mr Bridel made the decision personally, and it appears that Besnier's offer may not have been the highest.

Mr Bernard Aubert, secretary-general of the Besnier company, said the combination of the two groups would create a major unit in the French milk market, but one that was still small by comparison with its Dutch and Danish rivals. "We had to reach this dimension first on our domestic market before attacking the European market," he said.

The two dairy companies have between them the top three camembert brands, Président, Le Châtelain and Bridel, and the unpasteurised camemberts, Lanquetot and Lepetit. Mr Aubert emphasised, however, that they would only have 16 per cent of the total French cheese market, saying there was no reason for the deal to be referred to the competition council.

He said that with cashflow of FFr730m last year, Besnier would have no difficulty in financing the deal, which will involve taking majority control of Comerep, the Bridel holding company.


Bridel's sale will bring control of 16 per cent of the French cheese market under a single roof

Tuffier cuts workforce as trading falls

By George Graham in Paris

TUFFIER et Associés, the French stockbroking firm, is to cut its workforce by a third, laying off 100 people in a bid to cope with declining trading volume and thinner commission margins.

Mr Thierry Tuffier, chairman, said the company had lost FFr62m ($11m) in the first five months of this year, after seeing net profits drop last year to FFr16.5bn from FFr55bn in 1988.

The lay-offs are expected to come mainly at the principal stockbroking arm, Tuffier-Ravier-Py, but the group is also exposed to the highly competitive Treasury bond market, through the primary dealer Finance Plus, of which it owns 40 per cent, and through the inter-dealer broker Garban et Associés, of which it has just over 50 per cent.

Both companies made losses last year.

Tuffier also had to provision heavily last year for tax reassessments at Nicol, its money-broking subsidiary.

Mr Tuffier also said the group would spin off its asset management activities into a separate company in which a British insurance company is likely to take a very significant stake, which could go as far as the majority.

Tuffier is one of the first major casualties of the downturn in business in France. There have been spectacular bankruptcies on the Paris stock exchange, including Baudoin, Buisson, Rondeleux and the stock exchange itself, but these have been linked more to rash speculation on the futures market or to settlement disasters than to business volume.

Many brokers have made losses, however, and some pessimists estimate that more than two thirds of the 45 broking firms are currently trading in the red.

Overall, equity trading volume in Paris rose by 37 per cent in the first five months of this year, averaging over FFr3bn a day. Activity has been very unevenly spread, however, with business going increasingly to a handful of leading brokers on the one hand, and to the brokers tied to big retail bank networks on the other.

At the same time, bond volume has declined while the abolition of the stock exchange's fixed commissions tariff has led to competition among brokers and a narrowing of margins generally estimated at 15 per cent.

"We have aligned on Warburg at 0.3 per cent," said Mr Alain Ferri, whose firm is the largest employer on the Paris stock exchange.

The accountants shuffle again

David Waller on Touche Ross's UK merger with Spicer & Oppenheim

Just as the accountancy profession had seemed to settle down after the scramble to merge last year, Spicer & Oppenheim and Touche Ross yesterday announced plans to link up in the UK. The merged firm will displace Arthur Andersen & Co as the UK's fifth largest.

The enlarged firm – to be known simply as Touche Ross – will start trading on August 1 and will have fees of £262m ($477m) and total staff of just under 6,700 in the UK. It will be headed by Mr John Roques, senior partner of Touche Ross. The merger applies only to the UK and not to the rest of the Spicer & Oppenheim network.

The announcement marked the demise of one of the UK's most venerable middle-tier firms. In the mid-1980s, when what was then the Big Eight were first acquiring a taste for alliances, Spicer was at the top of everyone's list as a potential partner. Founded in 1902, the firm was fast-growing and well-based in its niche market serving the UK's financial services sector. It rebuffed a sequence of merger approaches.

More recently, however, Spicer's attractions have diminished. The link-up now has the flavour of a takeover rather than a merger on equal terms. This interpretation of events was strenuously denied yesterday by Mr Peter Stafford, Spicer's managing partner. Nevertheless, Spicer is giving up its independence through weakness rather than strength. For these reasons:

● It lost many of its traditional clients in the City of London as a result of Big Bang in 1986. As financial services companies combined or were taken over in the run-up to City deregulation, they tended to appoint new auditors. Spicer found itself losing out, at least in audit work, to the big international firms.

● What was left of its City client base suffered from the consequences of the October stock-market crash, hurting Spicer's London practice. Spicer's fee income in 1989-90 went up by only 11 per cent to £92.3m, the lowest increase of any of the UK's top 20 firms.

● Spicer was auditor to Barlow Clowes, the collapsed investment company, and to Atlantic Computers, the leasing subsidiary of British & Commonwealth. Mr Stafford said yesterday he thought it unlikely that Spicer would face litigation over these cases, but uncertainty hangs over the firm none the less.

● The US arm of the international federation to which the UK firm belonged has also been suffering from exposure to the financial services industry. It shed 20 per cent of its partners in the wake of the crash and last year it lost its biggest client – Bear Stearns – to Deloitte & Touche.

Continued bad publicity for Spicer in the US could have tempted Spicer's remaining UK-based multinational clients – which include Morgan Grenfell and Kleinwort Benson – to select another auditor. The merged firm will hope that such clients will be happy to be served by Touche's international network. If Spicer needed to merge, so did Touche Ross – but for different reasons. In last year's merger wave, Deloitte, Haskins & Sells and Touche Ross were unable to consummate a corporate match in the UK as they did in the US and elsewhere; Deloitte's UK partners defected to join Coopers & Lybrand.

Touche Ross has since picked up a large number of new UK clients as a result of its new international contacts, including such big names as Procter & Gamble, Merrill Lynch, and Dow Chemicals. It has the work – but not enough people to do it. Hence the logic of merging with, or rather swallowing up, one of the medium-sized firms.

It need not have been Spicer: Touche has twice in recent years made formal proposals to merge with Robson Rhodes (the UK's fourteenth largest firm after yesterday's link up), once in 1989, and once in June last year.

It remains to be seen whether yesterday's announcement will prompt a second wave of accountancy mergers, this time among the UK's middle-tier firms.

Mr David McDonnell, managing partner of Grant Thorton (set to be the UK's seventh largest firm) said that the deal would strengthen its position serving owner-managed business. A similar view is held by Mr Paul Hipps, senior partner of Stoy Hayward, the tenth largest firm. But Mr Hugh Aldous at Robson Rhodes said that the merger was the result of a squeeze on income which his firm was experiencing too. If that squeeze continues, more firms may succumb to the pressures that lost Spicer its independence.

Top ten UK accountants after the Touche/Spicer merger
Fee income 1989/90 (£m)

1.Coopers & Lybrand Deloitte	531.0
2.Peat Marwick McLintock	395.2
3.Ernst & Young	337.5
4.Price Waterhouse	300.1
5.Touche/Spicer	261.8
6.Arthur Andersen	194.4
7.BDO Binder Hamlyn	105.5
8.Grant Thornton	102.5
9.Panell Kerr Forster	76.2
10.Stoy Hayward	58.8

Source FT June 21, 1990

Asko row with Ahold ends as 13% stake sold to consortium

By Ronald van de Krol in Amsterdam

ASKO, the West German food retailer, has sold its 13.1 per cent stake in Ahold, the Dutch groceries group, to a consortium of banks for onward placement with other investors, ending a bitter dispute that has raged between Asko and Ahold for nearly a year.

The banking consortium, led by Amsterdam-Rotterdam Bank (Amro Bank) and Deutsche Bank, purchased the block of 3,083,952 shares from Asko on Monday and placed them privately with unnamed investors yesterday at Fl 141.60, a discount to Monday's closing price of Fl 143.10, valuing the share package at Fl 437.7m ($235.6m).

Ahold, the biggest food retailer in the Netherlands, said the share purchase and placement had occurred with its "consent and co-operation", adding that the banks had undertaken to spread the shares as widely as possible. The 3.08m shares represented all the shares which Asko had held in the company.

The transaction brings to an end a dispute that broke out in the summer of 1989 after Asko disclosed that it had bought a 12 per cent stake in Ahold from SHV Holdings, the Dutch wholesaling and energy group. Asko later bought shares on the open market to raise its stake to just under 15 per cent.

Ahold, furious that Asko had not informed it of the share purchases beforehand, abruptly ended negotiations with Asko on the West German company's desire to take part in the European partnership forged between Ahold, Argyll of the UK and Casino of France.

In an anti-takeover ploy commonly used by Dutch companies, Ahold issued preference shares to a friendly corporate foundation, diluting Asko's voting rights at the annual meeting. Asko's stake of ordinary shares was also diluted by an Ahold stock dividend and by the issue of new shares under an employees' stock option programme.

Trading in Ahold's shares was suspended on the Amsterdam Stock Exchange yesterday and is due to resume this morning.

Kuwaiti joins Asko board, Page 18

Empire Stores beats forecasts

By Maggie Urry in London

EMPIRE Stores, the UK mail order group, yesterday brightened the gloom in the retail sector by beating analysts expectations and reporting a small profit for the year to the end of April. The shares gained 5p to close at 90p, recovering half of Monday's 10p fall.

The pre-tax profit of £172,000 was achieved only through an exceptional gain of £1.4m ($2.53m) made on the sale of the company's debt collection business. It concealed a rise in bad debts of £5.6m, though the company does not disclose the total amount.

However, the group did make a pre-exceptional profit in its second half, of £1.9m, after a £3.1m loss in the first half. After passing the interim dividend a nominal 0.1p final is planned. Mr John Gratwick, chairman, said that the second half had shown "a distinct improvement" and that the group had increased market share and gross margins. He said trading conditions were still tough and that the poll tax was affecting customer's spending.

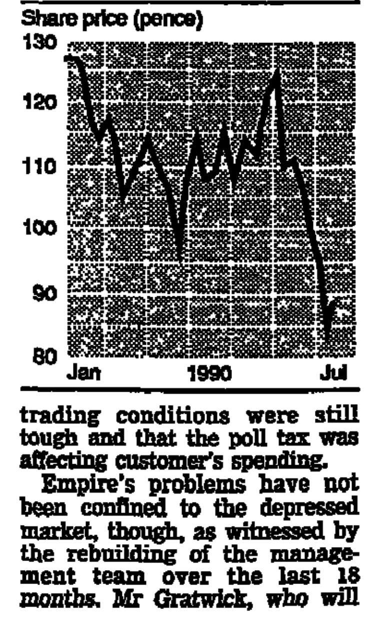
Empire's problems have not been confined to the depressed market, though, as witnessed by the rebuilding of the management team over the last 18 months. Mr Gratwick, who will retire at the annual meeting, said "the underlying problems in the company were more deep-seated than the management had initially envisaged." The group's computer systems are being overhauled and costs cut. "I believe the company can look to the future with greater optimism than previously," Mr Gratwick concluded.

A co-operation arrangement with La Redoute, a French mail order group, is expected to lead to further benefits. Empire will draw on La Redoute's experience in developing faster computer systems and on launching direct mail order catalogues.

Empire has three large shareholders, La Redoute with 26 per cent, Gecos, an Italian mail order company, with 24 per cent, and Great Universal Stores, the UK retail, banking and property group, with 12 per cent. Mr Gratwick said no change in these holdings was expected.

Comment, Page 25

Empire Stores
Share price (pence)



Stock market calls for halt to trading in BTF

By George Graham in Paris

FRANCE'S stock market authorities have demanded the suspension of trading in the shares of Bernard Tapie Finance (BTF) and two of its subsidiaries because of the lack of information about the group's acquisition of Adidas, the leading West German sporting goods manufacturer.

Mr Bernard Tapie, the group's flamboyant chairman, had refused to give a price for the deal, saying that he was bound by a secrecy agreement until August 10. But the group said last night that it had received permission to give details next Monday.

Mr Tapie added that "the total amount of the acquisition will make those who today cast doubt on our financial capacity to complete the negotiations look ridiculous." Nevertheless, Adidas has been widely estimated to be worth nearly FFr3bn ($542m), three times the market capitalisation of BTF itself.

Mr Tapie, equally, has been unwilling to give clear details of how the acquisition would be financed. He said half of the cost would be financed from BTF's own capital and the remainder equally divided between French and foreign bank borrowing.

It had been widely assumed that Tapie would have to sell some of its existing assets, such as the separately quoted weighing machine companies Terraillon and Testut, each currently capitalised at slightly less than FFr340m.

However, BTF on Monday surprised the market by announcing that Testut had bought Lutrana, another French weighing machine manufacturer, and would also absorb the Trayvou scales company from another part of the Tapie group.

Not all of Mr Tapie's investors have been enthusiastic about the performance of BTF, which last month announced a 54 per cent drop in profits to FFr27.7m in 1989 and a change in strategy from its past habit of buying bankrupt or troubled industries for a quick turnround.

Some have questioned Mr Tapie's commitment to the business now that he has also embarked on a political career, which for the moment appears to be his true passion.

The shares of BTF soared, nevertheless, on the Paris stock exchange on Monday.

The request by the Commission des Opérations de Bourse, the stock market regulatory body, for the suspension of trading in BTF is viewed as an unusual procedure, although quite long suspensions are not uncommon on the Paris market in the run-up to large operations.

Engelhard deal called off

By Our Financial Staff

THE PROPOSED sale by Engelhard, the US metals group, of its worldwide gold and silver operations to Degussa of West Germany has fallen through.

The US company said yesterday it would not proceed with the sale, originally announced in March, but would instead sell some North American operations and retain European operations that make gold- and silver-based products.

Engelhard said it was unable to reach "acceptable terms" with Degussa. The collapse of the deal is a blow to Degussa. It would have added considerably to its precious metal activities in the US and in Europe.

Engelhard said it expects the gold and silver businesses to reach a level of performance consistent with its goal of attaining a 15 per cent return on shareholders' equity.

The US company said it would move quickly to sell its North American electrical contacts, metal joining and jewellery operations.

Amro and Belgium bank end agreement

By Ronald van de Krol in Amsterdam

AMSTERDAM-Rotterdam Bank (Amro) of the Netherlands and Générale de Banque of Belgium yesterday formally killed their co-operation agreement in the light of Amro's plans to merge with Algemene Bank Nederland.

Mr Roelof Nelissen, Amro's chairman, has given up his seat on the supervisory board of Générale with effect from July 1, Amro said.

Baron Paul-Emmanuel Janssen, Générale's chairman, also relinquished his seat on Amro's supervisory board from the same date.

The demise of the Dutch-Belgian partnership agreement was always implicit in the merger plans unveiled by Amro and ABN in March, but it had never been spelled out formally by the boards of the two banks.

However, senior officials of Amro and Générale had made clear that there was no future for the alliance now that the Netherlands' two largest banks had decided to merge. ABN and Amro have said they expect to launch public bids leading to a share swap in the third quarter of this year.

The vague strategic co-operation agreement between Amro and Générale, which dates from September 1989, was itself a scaling back of even more ambitious plans announced by the two banks in February 1988 for a full merger, which would have created Europe's first cross-border link-up in banking.

Kuwaiti joins Asko board

ASKO, the German retailer, said yesterday it had appointed Mr Yussif Sulaiman ak-Sabah, a Kuwaiti businessman, to the supervisory board. The company refuses to be drawn on whether or not Kuwaiti interests had bought a stake in the company, writes Andrew Fisher in Frankfurt. Mr Mr Helmut Wagner, Asko's chief executive, announced a sales rise of 8 per cent last year to DM10.6bn ($6.5m).

Suchard deal yields a net SFr2bn for Jacobs

By William Dullforce in Geneva

PHILIP MORRIS of the US is paying Mr Klaus Jacobs SFr3.16bn ($2.26bn) for Colima, the holding company through which he controls Jacobs Suchard, the Swiss chocolate and coffee group.

Mr Jacobs will receive a net cash sum of SFr2.04bn after deducting SFr456m for the companies he is buying back and SFr667m for the loan he is taking over on one of these companies, E. J. Brach, the US confectioner.

Details of the agreed deal, announced on June 22, under which the US group plans to acquire Europe's biggest roasted coffee business and second largest chocolate and confectionery operation for a net cost of $3.8bn, were disclosed yesterday when Philip Morris published its tender offer for Jacobs Suchard's publicly traded shares.

The offer is formally being made by Colima, which holds 62 per cent of the voting rights and is being taken over by Kraft General Foods (KGF), the wholly owned subsidiary of Philip Morris Companies.

As previously reported, Colima is proposing cash payments of SFr8,500 per bearer share, SFr1,660 per registered share and SFr758 per participation certificate. In addition, it is offering SFr15.30 per "A" warrant and SFr70.50 per "B" warrant on the participation certificates. The offer is valid from July 25 to midday September 3.

The Swiss stock exchanges' regulatory commission has stated that the offer, which is being managed by Rothschild Bank, Zurich, complies with the Swiss takeover code.

According to the tender document, the offer prices include a premium of 26.7 per cent over the average daily closing price for the JS shares over the six months to May 25. From that date the prices were inflated by takeover rumours.

Compared with the offer to minority shareholders of SFr1,660 per registered share, the SFr3,165m that Philip Morris is paying for Colima puts a price of SFr3,645 per share, or a premium of 120 per cent, on the registered stock held by Mr Jacobs.

However, the tender document points out that the net sum paid to Mr Jacobs after deducting payment for the companies he retains and the loan he assumes equals SFr2,352 per registered share, a premium of 42 per cent over the price offered to the minority shareholders.

As well as Brach, Mr Jacobs is keeping Van Houten, the bulk chocolate and commodity trading company, the Nabob coffee operation in Canada and JS's stakes in three banks which specialise in commodity financing. They have combined sales of around SFr1.4bn.

Philip Morris said these enterprises showed a combined operating loss of some SFr96m in 1989 and did not fit into the core activities of the new chocolate and coffee group.

KFG will transfer to JS its German, French and Scandinavian coffee businesses and its French confectionery subsidiary, which produces mainly chewing gum. They will roughly restore JS's turnover to the SFr6.7bn recorded before deducting the companies retained by Mr Jacobs.

In exchange, KFG will receive from JS 100,000 reserved bearer shares, valued at SFr850m under the tender offer. Adjustments will be made after the companies transferred have been valued by two independent agencies.

Philip Morris denied reports that it intended to sell the JS confectionery operations, possibly to Britain's Cadbury Schweppes.

Mr Nicholas Rollo, Philip Morris' financial communications manager, said JS would continue the ambitious investment programme in developing new confectionery products and in geographical expansion which was started by Mr Jacobs but would have been difficult for the group to pursue on its own.

Japan, Britain, Italy and Spain are targeted.

KFG will appoint a new chief executive officer for JS to replace Mr Jacobs, but plans no other changes in management.

Belcofi eyes La Générale stake

By Lucy Kellaway in Brussels

BELCOFI, the secretive Flemish holding company, has confirmed that it is in talks to buy part of Mr Carlo De Benedetti's 15.4 per cent stake in Société Générale de Belgique, Belgium's biggest holding company.

Since the beginning of this year, Cerus, Mr De Benedetti's French holding company, has been trying to find a buyer for the holding, which resulted from a takeover battle for the company in 1988.

In spite of numerous rumours that the sale was nigh, no announcement has yet been made, and it is claimed that the price being demanded by Mr De Benedetti is too high.

Last month Compagnie Financière de Suez, which owns 51 per cent of La Générale, told an Italian newspaper that it might be prepared to buy some of the holding. However, it said that the L1,200bn ($990m) to L1,300bn sale price suggested by Cerus (equivalent to BFr3,4000 and BFr3,680 a share) was extravagant.

It has also been suggested that the shares could be sold through a placing of stock among Belgian investors, which would add welcome liquidity to the shares.

The intervention of Belcofi into the long running story of the stake would bring the Flemish company's interest in La Générale full circle. The company put itself on the map two years ago, when it sold its stake in La Générale to Suez during the bid battle.

The proceeds have part financed a steady stake-building exercise in Group Bruxelles Lambert, another Belgian holding company. Belcofi said this week it controlled between 13 and 14 per cent of GBL.

Deckel expects lower loss

By Andrew Fisher in Frankfurt

DECKEL, the West German machine tool company which fell into the red last year at a time of surging demand in the capital goods sector, expects to turn in a lower loss in 1990.

It also plans to restructure itself by concentrating on its main activities, buying more components from outside, and reducing jobs, Mr Peter-Jürgen Kreher, the new chief executive, said.

However, the company, controlled by the Deckel family, was not likely to seek new financial partners.

Last year, Deckel made a net loss of DM45m ($27m) after a profit in 1988 of DM2.3m. Turnover was down by 15 per cent to DM535m. No dividend is being paid.

Mr Kreher, a former director of Deutsche Babcock, said Deckel had tried to do too much too soon. Now, he said, it would concentrate on its traditional business of universal milling and drilling machines.

Deckel's problems stemmed from its hasty attempt to introduce a new range of more sophisticated machines, capable of operating at high speeds and with a high level of automation. They have proved successful but high investment costs and production delays have held back profits.

Turnover was up 50 per cent in the first half of this year.

COMPANY NEWS IN BRIEF

Fabrique Nationale Herstal (FN), the ailing Belgian arms maker, revealed a plan to return to profitability by 1995 conditioned on a big injection of capital, AP-DJ reports.

Mr Joseph Labaye, FN chief executive, said the plan would reshape FN into a more technologically up-to-date company. FN would cut its production of military arms to a minimum sustainable level and leave the munitions business. It would expand in the US, buying the 60 per cent it does not own of the maker of Winchester brand sporting rifles, US Repeating Arms (USRAC) of New Haven, Connecticut.

● RWE, the West German energy and power generation group, said it boosted its worldwide group sales by 13.3 per cent in the fiscal year ended June 30 to DM44.2bn ($26.9bn) from DM39bn a year earlier.

The Essen-based company said it increased its group net earnings above the previous year's DM745.9m. The company said its sales gain in fiscal 1990 was aided by the first-time consolidation of its 56-per cent owned Hochtief construction engineering subsidiary.

● Wintershall, the West German oil and gas group, is negotiating the purchase of a 25 per cent stake in Verbundnetz Gas, the pipeline company that will operate East Germany's national gas pipeline system.

Wintershall, a wholly owned subsidiary of the big West German chemical group BASF, is seeking the shareholding in Verbundnetz following "several attempts" to get permission from the East German energy ministry to gain access to the pipeline system.

Fininvest profits plunge

By John Wyles in Rome.

MR SILVIO Berlusconi's battle to win control of the Mondadori publishing group contributed to a heavy eightfold increase in his Fininvest group's debt last year.

Fininvest's consolidated net profits sank to L142.6bn ($118m) from L181.8bn, in spite of a 19 per cent rise in revenues to around L15,000bn.

Most significant is the increase in debt from L250bn at the end of 1988 to L2,037bn. Some L512.8bn of the increase is due to payments on the purchase of the Standa department store chain, while a further L800bn is attributed by the company to the Mondadori battle. Much of this would have been spent on building up a shareholding position in Italy's largest publishing group. For this year, Fininvest predicts L17,500bn revenues.

INTERNATIONAL COMPANIES AND FINANCE

Rhône-Poulenc shakes off cyclical shackles

Peter Marsh and William Dawkins on the company's search for new opportunities

Profligate spendthrifts or super-strategists? Analysts cannot make up their minds about Rhône-Poulenc, the biggest French chemicals group, which in the past year has embarked on a massive spending spree to restructure its business.

In 1989 state-owned Rhône-Poulenc spent FFr12.4bn ($2.24bn) on acquisitions to target the higher-value product areas which many in the chemicals sector believe will be in the star performers in the 1990s.

The company's ambitions have both impressed and worried industry observers, who admire the grandeur of the state-controlled company's approach but worry about its financial soundness.

At the beginning of this year, Rhône-Poulenc scored its biggest coup by agreeing on a $3bn deal which will give it 68 per cent of a partnership between the French group and Rorer, a medium-sized US pharmaceutical company. The new concern will be among the world's top 10 medicines businesses.

Much of the credit for altering the shape of the French company has gone to Mr Jean-René Fourtou, a former management consultant who has been Rhône-Poulenc's chairman since 1986 and who argues that worries about the group's debts are misplaced. "The centre of gravity of the business has changed," says Mr Fourtou. "We now have huge opportunities to do things we could not do before."

Among the deals which Mr Fourtou pulled off last year were the takeover of the speciality chemicals divisions of RTZ of Britain and of GAF of the US. And the Rhône-Poulenc controlled Institut Mérieux also bought Connaught BioSciences, a Canadian vaccines maker.

These acquisitions came soon after two other large purchases in the US in 1986 and 1987, in which Rhône-Poulenc spent $1bn buying Union Carbide's agrichemicals activities and the basic chemicals operations of Stauffer.

The effect of these moves has been to move more of Rhône-Poulenc's business away from the more cyclical parts of the chemicals industry where profits are likely to be affected by swings in the world economy. The company has also greatly widened its geographical spread.

This year Rhône-Poulenc will gain about a quarter of its sales from the US, the world's biggest chemicals market, up from just 3 per cent in 1986. Today about 25 per cent of the company's revenues are derived from France, compared with more than half in 1986. Just over half Rhône-Poulenc's 86,000 employees work outside France; five years ago the figure was 28 per cent.

In 1989, the company turned in an 18 per cent rise in earnings to FFr4.1bn, a creditable performance at a time when the chemicals industry is starting to show the first signs of moving into recession. The *profit was on sales of* FFr73.1bn, putting Rhône-Poulenc in roughly ninth place in the world's chemicals industry on turnover.

Last year the company gained about a quarter of its revenues from healthcare and 14 per cent from agrichemicals – a $20bn a year industry in which it is the fifth biggest player worldwide. Another 15 per cent of sales came from fibres, where the French concern is especially strong in nylon, and just under half from industrial chemicals.

In this last field Rhône-Poulenc gains a large part of the sales from relatively high-value products such as silicones, specialised intermediates and other areas. All these products are reckoned to be generally immune from the sudden falls in prices and profits which can affect more cyclical materials such as plastics and petrochemicals.


Jean-René Fourtou: wish to go private no secret

Mr Fourtou admits that – until the rash of acquisitions – Rhône-Poulenc had been lagging behind other large European chemicals groups such as Bayer, BASF and Hoechst of West Germany and Britain's Imperial Chemical Industries. All of these over the past two decades have been moving gradually into the US and into the less cyclical parts of the chemicals industry.

"Rhône-Poulenc had some catching up to do," says Mr Andrew Tivenan, a chemicals analyst at James Capel, the London stockbroker.

Many of the purchases have benefited from imaginative fund-raising devised by Mr Jean-Pierre Tiroufiet, the group's brilliant young finance director. He has won Rhône-Poulenc a reputation for being the state-owned company to have found the most original ways round the French Government's block on privatisations or nationalisations.

Having long ago exhausted the 25 per cent of non-voting equity it is allowed to issue to the public, Rhône-Poulenc last year launched an $875m issue of "perpetual subordinated notes," which pioneered a kind of quasi-equity issued by state companies.

Paris financiers have nicknamed this fund-raising instrument "Canada Dry" because of its less than apparent kick. This the company followed up with an equally novel $300m issue of participating shares with warrants.

Mr Fourtou is planning a $1.5bn divestment programme, including the public sale of minority stakes in RTZ and Connaught and the disposal of a number of non-essential businesses which came in with the acquisition spree. This, he predicts, will hold Rhône-Poulenc's debt gearing level at around 70 per cent of shareholders' funds at the end of this year, and reduce it to 50 per cent by the end of 1991.

Mr Fourtou has made no secret of his wish for Rhône-Poulenc to be at least partially privatised in the long term, but insists that the fact the Government owns all the voting shares makes no difference to the way he runs the company. "I am a manager, not a civil servant. I manage the company with a medium-term view as though it were private," he says, echoing a mood to be found increasingly across the state sector's top managers.

Some analysts argue that Rhône-Poulenc's spending spree was made easier by the presence of a state shareholder which feels unworried by a short-term rise in debts and underperformance in the share price. "The company has had a blank cheque from the taxpayer," says one New York bank investment manager.

Mr Fourtou's appointment provoked controversy when he was chosen by the then right wing government four years ago to succeed Mr Loïk Le Floch Prigent – now chairman of the Elf Aquitaine oil company – who has strong links with the Socialist party. When the Socialists returned to power two years ago, Mr Fourtou's job hung in the balance.

During the 1990s, Mr Fourtou has great hopes of swinging Rhône-Poulenc even more in the direction of speciality chemicals involving biological areas of research, mainly in healthcare and agrichemicals.

As part of the general drive to accent research-oriented aspects of the chemicals industry, Rhône-Poulenc's research and development spending has increased from FFr4.9bn in 1987 to FFr7bn last year.

In 1990, turnover of the Rhône-Poulenc/Rorer partnership – which is to be managed by Mr Rob Cawthorn, an Englishman who is the current head of Rorer and who will report to the Rhône-Poulenc board – will be about $2.5bn. Taking into account the prospects for new drugs emerging from the Rhône-Poulenc development pipeline and also from Rorer, sales should rise to $4.7bn in 1992 and $6bn in 1994, says Mr Fourtou.

By the mid-1990s, he reckons, one third of the total sales of Rhône-Poulenc should be coming from healthcare products, including pharmaceuticals, diagnostic products and vaccines. "If we succeed here (in life sciences generally) we will have changed a great deal," says Mr Fourtou. "But much depends on our future performance in innovation; we will need some luck."

Bid finance instrument begins trading, Page 30

Friendly societies plan A$4bn merger

AUSTRALIA'S two biggest friendly societies, IOOF and OST, have announced a merger that will combine total assets of more than A$4bn (US$3.2bn) writes Bruce Jacques in Sydney.

The deal is a consequence of the collapse of the Pyramid building society group, the country's second largest. When Mr John Cain, the Victorian Premier, announced a Government-backed rescue package for Pyramid last week, he also said the state's other non-bank financial institutions would be encouraged to merge and rationalise.

Combining the two friendly societies, which have grown in recent years to become large savings and investment institutions, is the first move in this direction.

OST has faced increased redemptions over its exposure both to Pyramid and to property on Queensland's Gold Coast. The merged entity will be called IOOF Financial Group, the OST managing director and another director will resign, and IOOF will head a refinancing of OST's mortgage exposure.

Mr Martin Pickersgill, IOOF managing director, said yesterday that merger discussions had begun about two months ago.

Malaysia plans to float 25% of Telekom

By Lim Siong Hoon in Kuala Lumpur

MALAYSIA'S privatisation programme is gathering pace with the expectation that Telekom, the country's telecommunications monopoly, will offer 25 per cent of its equity to the public in order to gain a stock market listing by December.

This would pave the way for another large flotation, that of Proton, the national car maker held 70 per cent by the Government and 30 per cent by Japan's Mitsubishi group.

On the horizon as well is an even larger exercise: privatising the National Electricity Board (NEB) which has a net asset valuation of M$7bn (US$2.58bn). NEB cleared its first legal hurdle last month when Parliament passed a bill to create a successor company, Tenaga Malaysia. It will take over NEB's functions in September.

Telekom's offer will raise between M$2bn and M$2.5bn. This compares with the M$3.9bn in total new equity offered through the Kuala Lumpur Stock Exchange during the first half of this year.

Still in the debate is the group's shareholding structure.

If the Government opts for a widespread shareholding, many subscribers could qualify for the offer. Mr Rashdan Baba, the group chairman, has suggested that subscriber ownership could start, for instance, among those who incur a M$200 monthly bill.

Like all privatisation listings, new Government policy requires a 5 per cent stake to be reserved for the company's workers. Telekom has 25,000 employees who Dr Mahathir Mohamad, the Prime Minister, said would receive at least 100m shares.

Telekom may price its offer between M$4 and M$5 a share on a profit forecast of M$500m this year, its third consecutive year of profitability. Last year it earned M$368m. The group is exempt from corporate tax until 1992.

Its revenues amounted to M$2.1bn last year, up nearly 14 per cent. Net assets rose 16 per cent to M$2.7bn.

Last December, Telekom's debts stood at M$4.1bn of which M$2bn must be repaid if it is to meet its target of keeping the debt-to-equity ratio to below one by next year. Between now and 1992, the group envisages M$1bn a year in capital expenditure and, hence, a profit growth slower than the past three years.

A foreign ownership entitlement for Telekom is also possible but, for the moment, serves merely as a contingency in case local participation is insufficient. Mr Rashdan has appeared optimistic that Telekom's offer would be fully subscribed despite its size, the largest seen so far in the stock market.

Edaran Otomobil Nasional (EON), Proton's domestic distributor, attracted M$1.3bn in offers last week for 13.1m shares, which at M$4.30 each were meant to raise only M$56.3m. EON had also privately placed 22.9m shares, and the two issues represented 30 per cent of the group.

The Government has now raised the possibility of privatising Proton, encouraged by the car maker's own performance as well as general economic prosperity.

Proton had a 70 per cent increase in revenues to M$1.4bn for the year to March and recorded M$159m in profits (the company is also exempt from corporate tax) compared with M$32m a year earlier.

Unit sales rose 47 per cent to 65,000 vehicles. Proton, held 70 per cent by Hicom, the Government's heavy industry group, requires a fresh dose of capital to raise its installed capacity from 80,000 units a year to 120,000 and later to 150,000.

Plant modifications will enable it to produce 85,700 units this year, its sixth year of operation. Proton expects to sell all its output, with a total turnover of at least M$2bn.

In four years, Proton plans to remodel its existing 1300 cc and 1500 cc Saga cars, introduce a 1800 cc version, and produce a left-hand-drive variant.

● Keppel, the state-controlled Singapore shipbuilding-based group, plans to place some 15m shares in the US, Our Financial Staff writes.

The issue would represent some 4.1 per cent of expanded equity and at current market prices would raise some S$118m (US$65m).

Reliance may lose control of L&T

By R. C. Murthy in Bombay

LARSEN AND TOUBRO, a leading Indian engineering company which was taken over two years by Mr Dhirubhai Ambani's controversial Reliance Industries group, appears to be moving away from the Reliance orbit.

State-owned financial institutions in April succeeded in ousting Mr Ambani as L&T chairman but he retained four nominees on its board, in a compromise aimed at resolving a heated dispute over how he gained control of L&T.

This did not go all the way to unwinding the 1988 takeover by Reliance, which was the *largest in India's recent corporate history.*

This month, however, the new management under Mr D. N. Ghosh, a retired banker who was appointed chairman, has taken a number of steps which point to an erosion of Mr Ambani's authority.

L&T has cut the size of a planned Rs8.2bn convertible debenture issue to Rs6.4bn ($370m) and, crucially, scrapped a Rs5.1bn supplier credit which the group had granted to Reliance for building a natural gas cracker at Hazira on the west coast.

Mr Ghosh says Reliance is a large group and can find resources on its own for its cracker project. L&T has frozen the Rs11bn Reliance equipment order, which is linked partly to the supplier credit. Nonetheless, the company's order book stands at Rs14bn, up by a fifth over the past two months.

Mr Ghosh projects a 35 per cent sales growth this year. Turnover was up by 38 per cent to Rs10.24bn in the year to March. Profits after tax jumped by 51 per cent to Rs429.7m.

● Profits of Tata Iron and Steel Company (Tisco), India's largest private sector company, dipped last year, contrary to the rising trend for other Tata companies and many other of the country's main industrial groups.

Net profits were to Rs1.48bn in the year to March compared with Rs1.54bn although sales rose 14 per cent to Rs21.5bn.

Mr Russi Mody, chairman, said production costs for steel rose but the company was hampered by official price controls. Operating profit was up by 7 per cent to Rs2.94bn. The dividend is being maintained at Rs3 per share.

Product prices for India's integrated steel plants are regulated – the Government grants *increases periodically* but at long intervals.

Tisco is the only private sector steel company, producing some 2m tonnes out of India's output of 6m tonnes last year. With a Rs20bn expansion programme, Tisco is set to produce some 2.8m tonnes of steel annually by 1994.

Abbott posts record sales and earnings

By Karen Zagor in New York

ABBOTT Laboratories, the Chicago-based pharmaceuticals and health-care company which is involved in a legal battle with its chairman who was ousted earlier this year, yesterday posted record sales and earnings for the second quarter of 1990.

Abbott had second-quarter net income of $240.2m or 55 cents a share, up 13 per cent from $212.6m or 48 cents in 1989. For the three months ended June 30, Abbott's sales advanced 14 per cent to $1.5bn from $1.32bn.

For the first six months, Abbot's net profits grew 13 per cent to $466m from $411m on sales which increased 13 per cent to $2.94bn from $2.61bn. Earnings per share advanced 15 per cent to $1.06 from 92 cents. The Illinois-based company said it expects to achieve record results for the whole of 1990.

Abbott's results have benefited from a number of new medications and the figures were in line with expectations. The company is still embroiled in an unusual battle with Mr Robert Schoelhorn, its long-time chairman who was ousted from Abbott's board in March.

Mr Schoelhorn, who has taken legal action to be reinstated or to receive damages for breach of contract, has been charged with stealing from the company. Mr Schoelhorn said the company "fabricated" the story to deny him $3.8m in Abbott stock and to ruin his business reputation.

● Tyco Laboratories, the diversified manufacturer whose products range from fire protection systems to computer circuit boards, yesterday reported record earnings and sales for the year to end-May.

For the fourth quarter, Tyco had net income of $35.2m or 86 cents a share on sales of $556m against earnings of $25m or 61 cents on sale of $538.4m a year earlier.

For the full year, Tyco recorded net income of $119.1m or $2.90 a share on sales of $2.1bn against profits of $91.3m or $2.26 a fully diluted share on sales of $1.97bn.

International Paper slides 19.2% in second quarter

By Alan Friedman in New York

INTERNATIONAL Paper (IP), the world's largest paper producer, has suffered a 19.2 per cent drop in second-quarter net income, to $185m or $1.70 earnings per share.

The decline in profits, which was attributed to lower prices for uncoated printing and writing papers and containerboard, comes in the wake of a 23 per cent earnings fall in the first three months of 1990.

Mr John Georges, chairman and chief executive stressed that the second-quarter result was down year-on-year, but still represented a slight improvement on the $180m, or $1.65 per share, net recorded in the opening quarter of this year. This improvement was largely due to strong performance by IP's European and specialty products businesses.

Mr Georges noted that Europe's economy is expanding at about twice the rate of growth in US domestic GNP and said second-quarter sales by IP's European paper and packaging businesses registered a 6 per cent rise against the first three months of 1990.

Looking ahead to the third quarter Mr Georges said slow domestic US growth and the traditional summer decline in European business would affect performance. He claimed however that price improvement in the uncoated papers market and the strength of consumer packaging and specialty products provided some basis for "guarded optimism."

IP, which has manufacturing operations in 22 countries, achieved a modest rise in net sales for the second quarter, from $3bn in the same period last year to $3.2bn. Its largest division – pulp and paper – saw turnover grow to $1.14bn from $945m in the same period last year.

Manville restructuring deadline

By Martin Dickson in New York

A FEDERAL court has set an August 6 deadline for the financial restructuring of a trust set up by Manville, the US industrial group, to pay claims to victims of its asbestos products.

The trust has severely depleted its funds, which means numerous asbestos victims could face many years waiting for compensation.

Judge Jack Weinstein, who has roundly criticised the trust for a shortage of funds, also urged lawyers to consider combining all asbestos injury cases across the nation to achieve peace in what he called "this wasteful, inefficient war."

The judge is hearing a case involving some 500 asbestos claims from workers at a navy yard in Brooklyn, New York, but asbestos-related cases form one of the largest categories of personal injury suits in US state and federal courts, threatening to clog the system while providing lucrative fees for lawyers.

Large legal fees are one reason for the depletion of the Manville Trust's funds and Judge Weinstein issued a temporary bar preventing it from paying any new settlements or lawyers' bills.

The trust was formed two years ago as part of a settlement which enabled Manville, weighed down by asbestos-disease related claims against the company, to emerge from Chapter 11 of the bankruptcy code. In return for payments by Manville to the trust, the body has assumed all legal liabilities for the company's asbestos products. But, because of the unexpected shortage of funds, people who are now claiming against the trust are being told they will not be paid until well into the 21st century – long after they will have died from asbestos-related cancer and lung diseases.

The judge said refinancing the trust could involve large new loan payments to the trust from Manville.

Siemens to buy Magna's motors unit

Bernard Simon in Toronto

SIEMENS, the West German industrial group, is the latest prospective buyer of one of several businesses put up for sale by the troubled Canadian automotive parts maker Magna International.

Siemens is understood to be on the point of concluding the purchase of Magna's MACI electric motors division which makes motors for windscreen wipers, heating fans and air conditioners. Terms have not been disclosed.

Besides supplying North American car makers, MACI also exports to Europe and the Far East from its plant in London, south-west of Toronto.

Magna, which was one of the great success stories of Canadian business in the mid-1980s, is in the middle of a sweeping restructuring programme aimed at bringing down its debt and staunching losses. Its losses totalled C$203m (US$175m) in the nine months to April 30, the bulk of which was accounted for by asset writedowns. Magna has also asked its lenders to renegotiate about C$1.1bn in debt.

The company has already sold or closed several businesses, ranging from a plastics moulding operation, which was sold to Mitsui and other partners in the venture, to a magazine publishing venture, which has been shut down.

Siemens already has a substantial stake in the North American car parts industry. The president of Siemens Electric, a subsidiary in Toronto, said last week that the company was actively looking for further acquisitions in North America.

Maxwell to put stake in Bell Group out to tender

Bruce Jacques in Sydney

MR ROBERT MAXWELL, the UK publishing magnate, has again seen his Australian investment plans rebuffed by the authorities. Following an out-of-court settlement in Perth yesterday, he will put his 14.9 per cent interest in Bell Group out to tender.

Bell Group, which has as its main asset Perth's only morning daily newspaper, the West Australian, is controlled by Mr Alan Bond, the besieged Perth entrepreneur.

Mr Maxwell bought his 14.9 per cent stake from Mr David Aspinall, Bell's chief executive, earlier this year in a deal that attracted the attention of the National Companies and Securities Commission, Australia's corporate regulator.

The NCSC took the matter to the Perth Supreme Court and yesterday obtained a consent order declaring that Mr Aspinall had broken the Companies (Acquisition of Shares) Code.

The sale of Mr Maxwell's shares will be handled by D.J. Carmichael, a Perth stockbroker. The forced sale is the second blow to Mr Maxwell's Australian expansion ambitions this year.

An earlier offer of A$250m (US$200m) for a 49 per cent interest in the West Australian newspaper was rejected by Mr Paul Keating, the Federal Treasurer, although Mr Maxwell has since said he may attempt to proceed with the deal.

GE unveils scientific breakthrough

By Martin Dickson

GENERAL Electric, the US company which pioneered the development of man-made diamonds in the 1950s, yesterday unveiled another scientific breakthrough – the creation of diamonds which it said were the world's most efficient conductors of heat, with important industrial uses.

GE said it would start commercial manufacture and marketing of the new diamonds in about a year and estimated the immediate potential market was between $50m and $100m a year.

The most obvious application is in the electronics, lasers and communications industries, where large amounts of unwanted heat have to be carried away from equipment, such as integrated circuit chips mounted closely together. The gems are said to be much less susceptible to damage from lasers than other transparent materials, making them ideal for laser windows.

Mr Edward Russell, vice president of GE Superabrasives, which makes industrial diamonds, said other applications were still being explored. They would "change the face of industry for many years to come."GE said they could conduct heat 50 per cent more efficiently than natural diamonds, which until now have been the world's best heat transmitter. The new gems will be more expensive to produce than industrial diamonds but should command a premium price because of their special qualities.

Digital Equipment reveals multi-purpose range of computers

By Louise Kehoe in Boston

DIGITAL EQUIPMENT, faced with sluggish sales and intensifying competition in its key markets, has unveiled a new range of multi-purpose mid-range computers with which it aims to defend its traditional stronghold in the scientific and engineering minicomputer market, while also expanding its sales of networked office computer systems.

The new VAX 4000 fits in the middle of Digital's product range, offering twice the power of the products that it replaces at a significantly lower price than competing minicomputers from IBM and Hewlett-Packard, Digital executives said.

The 4000 also represents Digital's response to increasing competition from desk-top computer manufacturers such as Sun Microsystems and Compaq Computer which offer high-performance network "servers" that enhance the performance of office computer networks.

"Client/ Server computing is the in word today," said Digital president Mr Ken Olsen, referring to the increasingly popular linking of desk-top computers with minicomputer and mainframes on a computer network. Digital's minicomputers would play a key role in this emerging model of office computing, he claimed.

For Digital, the 4000 introduction comes as the company is struggling to regain momentum after two years of sagging profits. Digital blames its slowing growth on slack demand in the US and UK, its two largest markets. Industry analysts note, however, that Digital's customers have delayed new purchases in anticipation of new products, including the VAX 4000 announced yesterday as well as Digital's VAX 9000, the company's first mainframe computer.

Digital hopes its sales will also be spurred by a huge display of its products which it is staging in Boston this week. "DECWorld" will be attended by thousands of company employees and customers. Last year, Digital skipped the annual event in a cost-cutting measure, but that may have been a mistake, Mr Olsen indicated.

The event represents "an invaluable opportunity to educate our people and our customers about our products," he said. "We had forgotten the enormous energy that DECWorld generates."

Texas files suits against five US chip producers

By Louise Kehoe

TEXAS Instruments, the second largest US semiconductor producer, has filed patent infringement suits against five US chip makers in its latest bid to increase royalty income from its extensive intellectual property rights.

As one of the earliest producers of semiconductors, TI holds many patents on the basic processes for chip manufacturing.

The suits charge Analog Devices of Norwood, Massachusetts, and the Californian companies Cypress Semiconductor of San Jose, Integrated Device Technology of Santa Clara, LSI Logic of Milpitas, and VLSI Technology of San Jose, all specialty chip companies, with using a TI-patented process for encapsulating semiconductor chips in plastic without licence. TI also filed a complaint with the International Trade Commission (ITC) charging that the five are importing chips without a licence to use the TI technology.

"TI is taking these actions to prevent the unauthorised use of its technology and protect the significant investments the company has made in development of intellectual property that is used in integrated circuits around the world," Mr Richard J. Agnich, TI senior vice president and general counsel said.

According to industry reports, TI is becoming increasingly aggressive in demanding significant royalty fees for licences to use its patented technology. Until the mid-1980s, US semiconductor manufacturers swapped patent rights for nominal fees. But In 1986, TI won patent infringement complaints against one Korean and eight Japanese semiconductor manufacturers.

Move to block Wassall

By Philip Gawith in Johannesburg

WASSALL, the UK mini-conglomerate, yesterday succeeded in having a special resolution passed which will allow it to buy out the 23 per cent minority in Metal Closures Group South Africa (MCGSA). But Wassall faces a court challenge today attempting to block the move.

The resolution was passed by the required 75 per cent of voters, but only because Wassall holds 77 per cent of the stock. Of the minorities, therefore, 97 per cent voted against the resolution.

Controversy has arisen around this small R13.8m ($5.2m) due to the treatment of the minorities. The offer is structured as a proposal to convert all their ordinary shares into redeemable preference shares, which would then be redeemed.

An interdict will now be sought restraining the Registrar of Companies from registering the resolution.

Mr Winston Floquet, managing director of stockbroker Martin & Co, maintains that the effect of the scheme is to create a large tax saving for the company. Wassall has described the arrangement merely as "strategic."

French add polish to Trump's palace

By Alan Friedman in New York

MR DONALD Trump, ebullient as ever despite his recent brush with bankruptcy, says that Galeries Lafayette, Galeries Lafayette, the leading French department store, will be moving into Trump Tower on Fifth Avenue.

The Trump Organisation said the 25-year lease signed by Galeries Lafayette makes the French retail concern the first European department store to open a New York affiliate.

The French group will take over several floors previously occupied by Bonwit Teller, the New York store that closed recently when its parent company – L.J. Hooker – filed for bankruptcy. It was Bonwit that used to occupy the site of the Trump Tower before Mr Trump had the building razed to the ground to make way for his flagship glass palace.

At a press conference Mr Trump claimed he had received "offers at higher rents from numerous other quality tenants" but had decided to favour Galeries Lafayette because it would be "the most exciting retailer to come to New York in many, many years."

Mr Trump – hyperbole notwithstanding - is still beset by a negative cash flow and is still seeking to sell off assets.

An aide to Mr Trump denied that the Galeries Lafayette deal had been held up because of Mr Trump's recent financial dealings. The New York real estate developer recently secured an emergency $65m bail-out from his consortium of 70 banks after coming within a whisker of defaulting on casino bonds and bank interest payments.

Investor to pay $1.4m in SEC part-settlement

By Alan Friedman

MR ROBERT Rossi, a Swiss investor, has agreed to pay $1.4m as part of a settlement of a Securities & Exchange Commission (SEC) suit charging him with insider trading in the stock of Rorer, the US drugs company that has been acquired by Rhône-Poulenc, the leading French chemicals concern.

The SEC suit was filed in a New York court in January when the US regulatory agency accused Mr Rossi and other European and Middle East investors of having traded shares on the basis of advance knowledge of the Rhône-Poulenc/Rorer deal.

At the time the SEC alleged that the four groups had made a total of nearly $6m profit from insider trading.

Mr Rossi made the payment – which reflects profit and interest the SEC alleged he made from insider trades – without admitting or denying any charges.

INTERNATIONAL CAPITAL MARKETS

German bonds weaken as over-supply fears mount

By Tracy Corrigan in London and Karen Zagor in New York

THE GERMAN government bond market drifted lower yesterday on news of further supply. Mr Claus Koehler, a Bundesbank director, announced that a second German unity bond will be issued in the next two months, and another Federal bond will be launched before then. Traders expect the government bond issue, which could emerge this week, to total DM5bn to DM6bn.

Bund prices fell about ½ point in light dealings. "The market needs a constant fix of good news to stay at these levels," said Mr Steve Major, an economist at UBS Phillips & Drew. The spread between the 10-year unity bond launched last week and the 10-year Bund widened fractionally to 4 basis points.

French government bonds slipped back in line with the German market, with the 10-year yield spread between the two markets steady at around 100 basis points.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		10.000	4/93	94-00	+04/32	12.82	12.42	12.59
		10.500	5/99	92-07	+18/32	11.94	11.81	12.00
		9.000	10/08	84-10	+28/32	11.00	10.94	11.08
US TREASURY *		8.875	05/00	102-03	+01/32	8.55	8.42	8.46
		8.750	05/20	102-08	+01/32	8.54	8.42	8.43
JAPAN	No 119	4.800	6/99	86.7480	-0.210	7.24	7.25	7.07
	No 2	5.700	3/07	90.9710	-0.263	6.86	6.80	6.58
GERMANY		7.750	02/00	93.7000	-0.120	8.73	8.61	8.83
FRANCE	BTAN	9.000	02/95	98.2923	+0.001	10.01	9.94	10.10
	OAT	8.500	03/00	92.5000	-0.130	9.71	9.58	9.80
CANADA *		9.750	05/00	94.0750	-0.025	10.74	10.75	10.57
NETHERLANDS		9.000	05/00	100.0500	-0.180	8.84	8.81	9.00
AUSTRALIA		12.000	7/99	93.2408	-	13.31	13.42	13.52

London closing, *denotes New York morning session
Yields: Local market standard Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

GOVERNMENT BONDS

■ GILT prices bounced half a point, as sterling's advance came to a halt just below the DM3 level. The September long gilt contract on Liffe ended at 84.02, up ¾ point on the day.

In the cash market, long-dated stocks, up ¾ point, outperformed the short end of the market by about half a point, due to the improved inflation outlook which traders are reading into sterling's strength.

Expectations that sterling will advance further, and break through DM3, are likely to lend continued support to gilts. In addition, sterling's strength has allowed the market to uncouple itself from other European bond markets, and largely from the US market.

■ JAPANESE government bond prices slipped half a point during the Far East's trading day on renewed speculation about a discount rate hike, but were steady during European trading. A slight increase in the unsecured overnight call money rate helped push up the yen.

■ US Treasury bonds drifted modestly higher yesterday morning as the market held steady in the absence of economic data.

At mid-session, the bellwether 30-year bond was up ⅛ point at 102⅛, yielding 8.54 per cent. Similarly, the two year issue was up ⅛ point, yielding 8.36 per cent.

The Federal Reserve operated in the open market to arrange two-day system repurchase agreements when Fed funds were trading at 8⅛ per cent. The adding move was widely expected. The Fed's target for the rates is still believed to be 8.14 per cent.

The stability in bond prices came in spite of weakness in the dollar, which at midday was quoted at DM1.6470 and Y148.95, below its earlier Tokyo high of DM1.6524 and Y150.80. The dollar lost ground against sterling and the yen amid speculation that Japanese interest rates may soon move higher.

Amex trades CVRs for French group

By Deborah Hargreaves

THE American Stock Exchange started trading contingent value rights for Rhône-Poulenc, the leading French chemicals company, on Monday.

The CVRs are part of an innovative financing package associated with Rhône-Poulenc's merger with the Rorer Group, the US pharmaceuticals firm. The products give Rorer shareholders a guarantee that they will benefit from the combination of the two companies' assets.

The CVRs will be distributed this month on the basis of one CVR for each Rorer Group share not owned by Rhône-Poulenc. The CVRs run for three years and specify that if the stock price of the combined company has not reached $98.26 by that time, Rhône-Poulenc will make up the difference.

This latest issue of CVRs will be the third product of its type listed by the Amex, where a similar investment vehicle was launched last year as part of a merger between the Dow Chemical Company and Marion Laboratories. Contingent Payment Units for Eli Lilley, the US drug company, began trading in 1986.

"CVRs represent the new majority owner's confidence in the new entity and the ability of the new entity's stock to reach a particular market price at a specified point in time," the Amex said.

Japan may resume loans to China

JAPAN'S commercial banks will look positively on resuming lending to China, the chairman of the Federation of Bankers' Association of Japan said, Reuter reports from Tokyo.

Mr Taizo Hashida, who is also president of Fuji Bank, said that Japanese banks are paying close attention to whether the World Bank resumes its overall lending to China. The World Bank has resumed some lending but only if loans are for "humanitarian" reasons.

His remarks dovetail with statements made by Mr Toshiki Kaifu, the Japanese Prime Minister, at the Group of Seven summit in Houston.

He was quoted in Houston by a government spokesman as saying Japan plans gradually to resume official loans on an untied basis to China after the G7 summit.

Mr Hashida said the Japanese Government's action in resuming official yen loans to China will be approved by other G7 nations.

Commenting on the possibility of financial co-operation with the Soviet Union, he said Japanese banks need to be cautious in providing loans and to scrutinise each loan request. This is because economic reform in the Soviet Union has just started and the nation has many economic problems to overcome.

Mr Hashida added, however, that the Japanese banking industry approves of official aid to eastern Europe and the Soviet Union.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6:10 pm on July 10

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield	OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABBEY NATIONAL 8 7/8 93	150	98¾	99¼	-¼	9.39	COUNCIL EUROPE 7 94 LFr	600	92⅞	93⅞		9.39
ALBERTA PROVINCE 9 3/8 95	600	100⅝	101		9.20	KREDIETCORP 7 93 LFr	1000	93⅝	94⅝		9.47
AMERICAN GENERAL 9 3/4 95	100	97½	99½	+¼	10.42	WORLD BANK 8 96 LFr	1000	94	95		9.38
AUSTRALIA 11 1/4 00	100	109¼	110	+1½	9.74	AMRO BANK 6 1/4 92 Fl	150	94¼	94⅞		9.45
[illegible]						[illegible]					

DEUTSCHE MARK STRAIGHTS — [illegible]

FLOATING RATE NOTES — [illegible]

SWISS FRANC STRAIGHTS — [illegible]

YEN STRAIGHTS — [illegible]

CONVERTIBLE BONDS — [illegible]

* No information available - previous day's price
† Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Korea and Hungary in finance deal

THE first financial joint venture between South Korea and Hungary began operation in Budapest on Tuesday, AP-DJ reports from Seoul.

Investrade, a $100m joint venture between South Korea's Daewoo Securities and Hungarian Credit Bank, will provide financial services aimed at promoting trade and investment between the two countries.

It will invest in equity securities issued by Hungarian companies, said Mr Kim Moon-Han, president of the joint venture. He added the bank will advise on mergers and acquisitions for domestic and international clients. The company is a member of the Budapest Stock Exchange.

Economic ties between South Korea and eastern European countries have improved recently. Hungary normalised diplomatic relations with Seoul last year.

Daewoo Securities is the largest Korean securities company.

UBS takes three Citibank men

By David Lascelles, Banking Editor

UBS Phillips & Drew, the investment banking arm of the Union Bank of Switzerland, has increased its coverage of the German equities market by recruiting three specialists from Citibank for its Frankfurt-based affiliate Schweizerische Bankgesellschaft (Deutschland). They are Mr Alexander Vollet, a specialist in smaller company research, Mr Ralf Groenemeyer, specialist salesman and head of the Frankfurt equity team, and Mr Klaus Fink, who will handle domestic clients.

UBS has a co-operation agreement with its sister company for direct access to the Frankfurt stock exchange, so only a single commission will be payable on transactions in German securities.

Bahrain SE seeks advice

BAHRAIN'S infant stock exchange is seeking assistance from various European bourses in an effort to boost trading in domestic and international stocks, AP-DJ reports from Bahrain.

Mr Fawzi Behzad, Bahrain Stock Exchange director, is to visit London, Paris and Luxembourg for talks with stock exchange officials in those countries. Mr Behzad will discuss ways to improve techniques of stock issuance and trading as well as training exchange participants in stock settlement, and in information and trading systems.

Last month, trading began in Bahrain in the shares of Arab Banking Corp (ABC), the first international stock to be listed on the Bahrain exchange.

ABC, a Bahrain-based offshore bank, had issued 25m shares to Arab and international investors.

The Bahrain exchange is keen to develop trading in other international stocks.

Novel NZ$250m issue from the World Bank

By Andrew Freeman

THE World Bank cemented its reputation as an innovative user of the bond markets by launching a very successful NZ$250m seven-year deal yesterday to exploit the international bond structure. The issue was the first non-US dollar deal to use elements of the recently introduced structure which allows simultaneous placement and trading of bonds across the world's leading securities markets.

However, the World Bank was quick to play down the apparent similarity between yesterday's deal and previous issues in the dollar market. An official said it was a domestic issue allowing foreign participation, but its intended market was "radically different" from the US dollar market.

The issue was designed to exploit the recent aggressive liberalisation by the Government of New Zealand's capital markets by offering liquidity to institutional accounts as well as the traditional witholding tax advantages of Kiwi deals to offshore investors.

Fay, Richwhite, lead manager of the issue, said the deal marked a significant departure for the NZ-dollar sector from traditional Kiwi Eurobond deals which have generally been small and illiquid. A syndicate official said the domestic market enjoyed a decisive rally on the back of the issue, with yields of domestic bonds tightening by as much as 10 basis points.

The World Bank bonds, issued as book-entry, nominally domestic instruments, were structured along international lines, syndicated as a fixed-price re-offer with semi-annual coupon payments and documentation allowing international clearing through the Depository Trust Company in New York and in Euroclear and Cedel in Europe.

The paper was priced at 100.90 with a 12.5 per cent coupon to yield 25 basis points over the equivalent government bonds at the time of launch. A legal arrangement between syndicate members meant that no part of the ⅞ point underwriting fee could be discounted to investors.

Although the fixed price was not broken until the beginning of the next trading day in New

INTERNATIONAL BONDS

Zealand, there was an active grey market in London where the bonds were quoted at a premium of a full point to the issue price. At that level, the spread against government bonds had narrowed decisively to around 10 basis points.

The World Bank official said one key to the deal had been the setting up of swaps to provide the desired end funding in D-marks. However, he denied speculation that the issue had been delayed while swaps were sought, saying that the technical challenge of bringing together all the parties involved in the deal had taken several months.

Elsewhere, the Eurobond market remained becalmed, with few new issues emerging. There was confusion over the failure to appear of several expected issues of bonds with equity warrants for Japanese borrowers.

Following Friday's hugely successful $300m issue via Nomura for Daikyo, traders had expected further supply early this week, but no deals were launched on Monday or yesterday.

Officials at the big four Japanese securities houses were reluctant to discuss why deals appeared to have been delayed.

However, it emerged that they had become concerned after Friday's issue that their efforts to ensure an orderly return of the market was likely to be undermined by aggressive buying of the planned new issues. This could have led to sharp cuts in coupon levels, making it difficult to re-establish the market at what the big four had judged as realistic levels.

There was speculation that the big four agreed to delay some deals in order to launch several issues at the same time, thereby diluting the effect of demand on individual issues. It seems likely that up to four deals will be launched simultaneously today in an attempt to steady the market.

Elsewhere, the World Bank borrowed Pta10bn of five-year money on the growing Matador market. Banco Espanol de Credito and J.P. Morgan were joint lead managers of the deal which was well received and traded as high as 100⅞ bid, before settling at 100⅝ bid, comfortably inside fees.

Traders said pent-up demand for top quality names ensured widespread placement. Proceeds were swapped into floating-rate D-Marks. There was speculation that the unusually short payment date on the issue had been arranged to facilitate a subsequent issue for a sovereign borrower.

Banco di Roma brought a $150m (increased during syndication to $175m) nine-year floating-rate note via Lehman Brothers to a good reception. The notes, which offered a spread of 5 basis points over six-month Libor, were trading around full fees at 99.85 bid.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
NEW ZEALAND DOLLARS						
World Bank(a)◆	250	12½	100.90	1997	⅞	Fay, Richwhite (UK)
PESETAS						
World Bank(b)◆	10bn	13¾	101.40	1995	1⅝/1½	Banco Espanol de Credito
US DOLLARS						
Student Loan Mkt.Ass.(c)‡◆	600	25bp	100	1991	n/a	(c)
Banco di Roma (London)(d)‡◆	175	5bp	100	1999	15/10bp	Lehman Brothers
D-MARKS						
Miura Printing Corp.(b)★★◆	12	9¼	101¼	1994	n/a	Mitsubishi Bank Germany

★★Private placement. ‡Floating-rate notes. ◆Final terms. a) Global issue. Fixed re-offer price. Coupon paid semi-annually. b) Non-callable. c) Global issue. Book-entry. Coupon pays 25bp over 91-day T-Bill auction rate. Maturity January 1991. d) Coupon pays 5bp over 6-month Libor. Call at par on August coupon dates from 1993. Put at par on August coupon dates in 1993, 95 & 97.

Dresdner Bank to sell basket of index stocks

By Katharine Campbell in Frankfurt

INDEX participations, the equity market basket products blocked by regulatory disputes in the US, have been introduced on the West German stock market.

Dresdner Bank, West Germany's second largest bank, yesterday announced plans to issue up to 10m DAX participations (IPs), worth around DM2bn at current market levels.

The bank began selling the units immediately, and a listing on the Frankfurt stock exchange will follow shortly, though the full amount will not be available at once.

The DAX, a real-time index of 30 blue chip stocks, represents around 60 per cent of the Frankfurt market's total capitalisation.

The new units are priced at a tenth of the DAX value, offered at a premium of DM1.50.

They run for five years initially, with a cash-out provision every quarter.

IPs can be an efficient vehicle for index fund managers replicating the German market - much less cumbersome than buying each stock separately, even if the investor does forfeit voting rights.

Small investors can also gain exposure to the whole market for a relatively small outlay.

The new instruments will also facilitate index arbitrage between the DAX future, to be listed by the DTB, the German futures market, in September, and the cash units.

But arbitrage will be restricted as legal problems relating to stock lending in Germany prohibit investors going short of the IPs.

IPs have stimulated considerable interest in America, but inter-exchange rivalry unleashed a turf dispute between regulators, and units on US indices have currently been suspended.

Much of the success of the German product will rest on how successful Dresdner and possible other market-makers are in creating a liquid secondary market.

Playing a waiting game in Milan

Haig Simonian finds many investment bankers moving into Italy

FOR those who like to spot bankers as well as aircraft, Milan's Linate airport is an absorbing place. Dozens of commercial bankers, notably from the US, have jetted out in recent years, to be quickly replaced by an equal number of colleagues from the world of investment banking.

First Chicago, Wells Fargo and, most recently, Lloyds Bank of the UK are just three of the more notable departures from Milan, moving out as a result of the weakness of Italian lending margins, headquarters retrenchment and the occasional whiff of foolish lending.

Morgan Stanley, S.G. Warburg, N. M. Rothschild and Schroders are four of the city's more prominent newcomers, soon to be followed by Union Bank of Switzerland and Credit Suisse First Boston. Goldman Sachs and Wasserstein Perella, although not present on the ground in Italy, have recently scooped up Mr Romano Prodi and Mr Franco Reviglio, two heavyweight former state industry heads, as their respective local consultants.

Unlike other European financial centres such as Paris and Frankfurt, where there has been an even greater scramble to set up foreign investment banks, reasons for opening in Milan are not so obvious.

Italian government bonds, although a big market, have only recently begun to catch the eye of foreign investors and dealers. Although equities should be more attractive given the drive of Italian companies, the under-regulated and over-speculative Milan bourse has made many foreigners fight shy.

Italy's stunted capital markets mean big domestic companies have long since learned to use the London-based Euromarkets without needing a local helping hand.

Indeed the ability to service Italian clients from abroad is probably heightened by the country's lack of chauvinism and openness to new ideas, irrespective of origin, as well as the impressive mobility of its younger bankers.

The prevailing mood in Italy seems to reflect a prejudice-free readiness to venture abroad.

Thus in contrast to their German and French counterparts, Italian bankers do not seem too bothered that an increasing proportion of trading in leading Italian shares is now done in London rather than at home.

Nor are there cries of "foul" at the thought that derivatives on Italian government bonds and on Eurolira deposits may soon start trading at the London International Financial Futures Exchange. Until bourse reform can be settled the prospect of a domestic Italian futures exchange remains elusive. Thus to some extent Italy is very much a waiting game for many of the banking newcomers.

Corporate finance work, and mergers and acquisitions provides much of their bread and butter at present. Some, like Morgan Stanley and Warburg, have a long-standing relationship with Italian private and public-sector clients which they now want to reinforce with a local presence, explains Mr Pierleone Ottolenghi, the managing director of S. G. Warburg Italia. His company was set up at the beginning of this year to combine the previous representative offices of the bank's broking, banking and fund management subsidiaries.

It is no coincidence that Morgan Stanley's Milan operation, a four-man representative office, has more space than seems necessary for the handful of people working there.

As with Rothschild, which set up in Milan a year ago, corporate finance and M&As form a big part of Morgan Stanley's business at present. Both Mr Ottolenghi and Richard Katz, managing director of Rothschild Italia, stress the potential of the Italian M&A market.

With rationalisation and, especially, cross-border business on the increase, both banks see good prospects among the plethora of small- and medium-sized family firms now spreading their wings abroad.

But Rothschild and Schroders are the only two UK houses so far to take their interest in smaller companies to the investment stage.

Rothschild's $30m fund, aimed at buying stakes in small and medium sized companies, is now fully subscribed with US, UK and European institutions, says Mr Katz.

While current activities rarely justify a local presence, all the foreign houses are waiting patiently for the big breakthrough – privatisations. For Warburg and, to a lesser extent, Morgan Stanley, that means equity business. Building on its existing broking acquisitions in Paris and Munich, Warburg is clearly keen to develop its Italian stock market business as part of ambitions to cover the European market.

The bank has already announced a co-operative agreement with Giubergia, the respected Turin-based broker, on producing joint Italian research. Mr Tim Orchard, Warburg's Italian analyst, is shifting from London to Milan, along with a colleague on the sales side.

Mr Ottolenghi is reluctant to say whether the bank will eventually buy Giubergia. But at the very least, establishing a joint Sim (Societa di Intermediazone Mobiliare) the new breed of Italian financial institution combining broking, corporate finance and fund management, seems inevitable.

More active participation on the Milan bourse is also a possibility for Nomura, which has a local subsidiary mostly selling Japanese equities and equity-linked products to Italian investors. But fixed-income products in a variety of currencies are now being given more play alongside the traditional equity business.

Further down the road is the possibility of selling Italian securities, both to domestic clients in Japan, and, eventually, new customers in Italy. The problem is largely one of insufficient information about Italy in Japan. While the foreign newcomers interested in equities will have to await parliamentary approval of Italy's long expected new Sims law, Rothschild's particular emphasis on potential privatisation business means it too is having to be patient at present.

There should eventually be plenty of opportunities. The names of the companies owned by Iri, Eni and Efim, Italy's three big state holding groups, would go some way to filling the Milan telephone directory.

Mr Katz says Rothschild is taking a one- to five-year view on privatisation. While many of Mr Katz' colleagues are more sceptical, all are united in playing a waiting game.

Nomura doubles capital of its London arm

By Stephen Fidler, Euromarkets Correspondent

NOMURA Securities, the world's largest securities house, is doubling the capital of its London operation to £100m and expanding its investment in three other European subsidiaries.

An official said the capital increase reflected the company's view about the importance of the introduction of the single European market after 1992.

It also anticipated the greater demand for capital which will follow reunification in Germany and the growth of the investment needs elsewhere in Eastern Europe.

The capital of its Swiss subsidiary will be increased 2.4 times to Y13bn, its German subsidiary by 3.2 times to the same amount, while its Luxembourg subsidiary's capital will increase 1.6 times to Y5bn. With the increase in London, the capital of the four subsidiaries will rise by Y33bn to Y58bn.

Nomura started this week to make markets in 13 European stocks, from West Germany, France, and the Netherlands, and added 11 UK stocks to the 50 in which it already makes markets.

Having recently opened offices in Basle and West Berlin, it will also open a representative office of the Tokyo parent company later this month in Rome. It already has an operation in Milan.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

EQUITY GROUPS & SUB-SECTIONS — Figures in parentheses show number of stocks per section	Tuesday July 10 1990: Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1990 to date	Mon Jul 9: Index No.	Fri Jul 6: Index No.	Thu Jul 5: Index No.	Year ago (approx): Index No.
1 CAPITAL GOODS (196)	871.10	-0.3	13.29	5.33	9.19	22.72	873.60	877.35	875.02	973.42
2 Building Materials (26)	1089.80	-0.9	14.04	5.53	8.80	30.01	1099.26	1110.40	1107.22	1197.69
3 Contracting, Construction (36)	1418.13	-0.3	16.76	5.79	7.76	35.19	1421.84	1433.08	1427.03	1655.57
4 Electricals (10)	2461.69	+0.3	11.67	5.41	10.54	61.43	2455.36	2461.52	2473.11	2864.75
5 Electronics (26)	1783.84	-0.3	10.58	4.51	12.30	51.23	1788.56	1803.85	1806.62	2231.50
6 Engineering-Aerospace (8)	473.66	+0.1	13.68	4.97	8.71	9.54	473.17	472.79	468.39	0.00
7 Engineering-General (46)	488.77	-0.1	12.03	5.23	10.05	11.34	489.28	490.04	490.04	0.00
8 Metals and Metal Forming (6)	479.80	-0.5	24.06	7.00	5.06	16.45	482.43	481.49	477.53	519.30
9 Motors (14)	363.87	+0.3	15.27	6.33	7.63	9.81	362.81	363.27	364.54	330.49
10 Other Industrial Materials (24)	1569.26	-0.2	11.23	5.14	10.29	38.49	1573.12	1574.26	1565.24	1664.17
21 CONSUMER GROUP (178)	1292.39	-0.4	9.42	3.90	13.10	21.74	1297.38	1299.69	1295.54	1277.53
22 Brewers and Distillers (22)	1602.17	-0.4	9.51	3.64	12.64	23.74	1608.86	1611.49	1604.49	1424.29
25 Food Manufacturing (20)	1089.39	-0.9	10.52	4.34	11.77	22.71	1099.44	1105.98	1104.28	1170.46
26 Food Retailing (16)	2504.65	....	9.25	3.29	13.84	33.61	2505.93	2501.20	2500.06	2399.11
27 Health and Household (15)	2562.89	-0.1	6.71	2.70	17.73	25.10	2565.33	2541.88	2532.00	2264.89
29 Leisure (32)	1447.73	-1.5	10.07	4.27	12.08	32.35	1469.71	1491.38	1486.41	1708.29
31 Packaging & Paper (12)	610.08	+0.4	10.87	5.64	11.33	12.94	607.70	607.12	605.45	575.55
32 Publishing & Printing (16)	3509.51	-1.0	10.27	5.26	12.18	81.93	3545.19	3547.10	3542.18	3626.02
34 Stores (34)	787.51	+0.4	11.26	4.75	11.43	15.90	784.64	792.81	788.24	846.18
35 Textiles (11)	493.49	-0.5	12.48	7.29	10.11	18.26	495.97	494.61	496.17	549.75
40 OTHER GROUPS (106)	1182.76	-0.1	11.03	5.01	10.92	17.45	1184.45	1185.90	1188.22	1189.79
41 Agencies (17)	1701.77	-0.4	5.93	2.24	20.41	15.75	1708.10	1711.00	1715.69	1399.58
42 Chemicals (23)	1262.66	-0.4	11.13	5.25	10.51	31.87	1267.78	1276.77	1267.90	1284.60
43 Conglomerates (15)	1587.33	-0.9	10.80	6.28	11.09	31.95	1602.46	1610.52	1623.26	1729.75
44 Transport (13)	2298.65	+0.1	10.69	4.51	11.88	49.33	2296.51	2286.98	2278.57	2512.98
46 Telephone Networks(2)	1245.63	+0.4	10.77	4.52	12.08	3.78	1240.82	1237.76	1246.03	1077.87
47 Water(10)	1951.98	....	16.44	6.94	6.81	0.00	1951.28	1949.82	1955.03	0.00
48 Miscellaneous (26)	1810.40	+0.2	12.23	4.95	9.31	38.44	1806.96	1807.28	1806.96	2087.06
49 INDUSTRIAL GROUP (480)	1164.96	-0.3	10.85	4.59	11.25	21.41	1168.28	1170.86	1169.17	1194.08
51 Oil & Gas (20)	2271.16	-1.0	12.95	5.43	10.12	46.50	2293.82	2294.60	2283.85	2131.87
59 500 SHARE INDEX (500)	1258.02	-0.4	11.14	4.71	11.08	23.49	1262.84	1265.30	1262.91	1273.79
61 FINANCIAL GROUP (108)	798.65	-0.6	–	5.73	–	21.27	803.27	802.06	797.20	762.40
62 Banks (9)	851.07	-0.9	19.25	6.34	6.80	25.62	858.48	850.53	837.00	755.69
65 Insurance (Life) (7)	1452.03	+0.1	–	5.06	–	36.94	1450.53	1449.90	1446.46	1130.34
66 Insurance (Composite) (6)	677.98	-0.7	–	6.10	–	19.43	682.86	690.32	691.96	602.77
67 Insurance (Brokers) (8)	975.02	-1.2	8.83	6.60	14.92	31.64	986.88	989.53	987.99	964.67
68 Merchant Banks (7)	433.47	-0.3	–	4.68	–	10.76	434.91	435.63	437.98	340.96
69 Property (47)	1101.70	-0.2	7.97	4.28	16.05	19.57	1103.98	1102.82	1104.19	1352.09
70 Other Financial (24)	287.29	-0.7	10.75	6.80	12.08	8.66	289.25	290.96	289.12	370.02
71 Investment Trusts (67)	1208.57	-0.5	–	3.23	–	17.97	1214.40	1217.40	1206.86	1185.34
91 Overseas Traders (5)	1426.22	-0.2	9.87	6.41	12.10	44.49	1429.57	1445.36	1459.88	1361.05
99 ALL-SHARE INDEX (680)	1147.60	-0.4	–	4.82	–	22.74	1152.34	1154.10	1151.07	1148.14

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jul 9	Jul 6	Jul 5	Jul 4	Jul 3	Year ago
FT-SE 100 SHARE INDEX‡	2327.5	-10.0	2333.2	2323.1	2337.5	2340.0	2331.4	2355.5	2371.7	2250.9

FIXED INTEREST

PRICE INDICES	Tue Jul 10	Day's change %	Mon Jul 9	xd adj. today	xd adj. 1990 to date
British Government					
1 Up to 5 years	115.48	+0.03	115.44	–	6.53
2 5-15 years	121.13	+0.32	120.74	–	6.91
3 Over 15 years	124.38	+0.54	123.72	–	6.15
4 Irredeemables	140.78	....	140.79	–	7.35
5 All stocks	121.30	+0.24	121.01	–	6.79
Index-Linked					
6 Up to 5 years	146.66	+0.08	146.54	–	1.49
7 Over 5 years	137.03	+0.15	137.04	0.22	2.24
8 All stocks	137.64	+0.15	137.64	0.20	2.19
9 Debentures & Loans	100.72	+0.05	100.67	–	6.22
10 Preference	74.65	-0.26	74.85	–	3.58

AVERAGE GROSS REDEMPTION YIELDS		Tue Jul 10	Mon Jul 9	Year ago (approx.)
British Government				
1 Low	5 years	10.87	10.91	9.96
2 Coupons	15 years	10.86	10.90	9.34
3	25 years	10.86	10.90	9.18
4 Medium	5 years	12.25	12.27	10.77
5 Coupons	15 years	11.36	11.43	9.78
6	25 years	11.00	11.06	9.35
7 High	5 years	12.34	12.36	10.90
8 Coupons	15 years	11.60	11.66	9.99
9	25 years	11.22	11.28	9.53
10 Irredeemables†		10.92	10.92	9.21
Index-Linked				
11 Inflation rate 5%	Up to 5yrs.	5.41	5.43	3.55
12 Inflation rate 5%	Over 5 yrs.	4.27	4.28	3.63
13 Inflation rate 10%	Up to 5 yrs.	4.36	4.37	2.81
14 Inflation rate 10%	Over 5 yrs.	4.10	4.11	3.47
15 Debs &	5 years	13.63	13.68	12.05
16 Loans	15 years	12.82	12.82	11.71
17	25 years	12.54	12.54	11.36
18 Preference†		12.68	12.64	10.27

‡Opening index 2333.2; 9 am 2324.7; 10 am 2324.8; 11 am 2328.2; Noon 2328.0; 1 pm 2328.8; 2 pm 2331.0; 3 pm 2331.1; 4 pm 2330.0; 4.10 pm 2328.4; (a) 8.30am (b) 9.22am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 35p. NAME CHANGE: Eastern Produce Holdings (91) has become Linton Park.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	57	5	37
Corporations, Dominion and Foreign Bonds	5	0	18
Industrials	201	465	910
Financial and Properties	64	209	465
Oils	12	32	44
Plantations	1	3	6
Mines	17	65	83
Others	40	85	116
Totals	397	864	1,679

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Am'nt Paid up	Latest Renunc. Date	1990 High	1990 Low	Stock	Closing Price p	+ or -	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
–	F.P.	–	131	110	ABI Leisure 10p	131	+1	R4.7	3.3	4.8	8.6
–	F.P.	–	46	28	First Philipne. Inv. Tst.	30		–	–	–	–
–	F.P.	–	22	10	Do. Warrants	10	-1	–	–	–	–
–	F.P.	–	14	6	Fisher (Albert) Wrrts.	9	+½	–	–	–	–
500	F.P.	–	100	95	French Property Tst.	99		–	–	–	–
–	F.P.	–	39	32	Do. Warrants	38		–	–	–	–
†	F.P.	–	75	66	Golden Vale Ir1p	70	+4	u0158%	5.1	2.1	12.8
681	F.P.	–	88	83	Intrum Justitia 10p	84		a1.75	2.5	2.8	13.9
100	F.P.	–	98	95	Jupiter Euro Inv. Tst.	98		–	–	–	–
–	F.P.	–	38	35	Do. Warrants	38		–	–	–	–
§108	F.P.	–	116	114	♦Levercrest 5p	115	+1	R4.05	2.4	4.7	9.3
–	F.P.	–	44	35	Lucas Inds. Warrants	37		–	–	–	–
§77	F.P.	–	85	77	M & W 10p	83		R2.2	2.9	3.5	9.3
–	F.P.	–	7	4	♦Oliver Res warrants	6	+1	–	–	–	–
–	F.P.	–	31	21	Paribas French B Wrrnts	26	-2	–	–	–	–
120	F.P.	–	130	100	Pittencrieff 10p	120		1.23	1.8	2.6	15.4
§100	F.P.	–	102	95	Siam Select. Growth Tst.	102	+1	–	–	–	–
–	F.P.	–	38	30	Do. Warrants	38	+1	–	–	–	–
–	F.P.	–	43	35	Southend Prop Wrrnts	40	+2	–	–	–	–

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1990 High	1990 Low	Stock	Closing Price £	+ or -
101.73	F.P.	-	102¼	100	Anglian Water 5⅛pc Index-lnk Ln 2008	102¼	+¼
100p	Nil	-	2pm	¼pm	BICC Cap Fin 10.75pc Cv Cap Bds 2020	¼pm	-¼
100	F.P.	-	101	90	§Bluebird Toys 12pc Cv. Uns. Ln. 2005	95	
♦	F.P.	-	87p	81p	European Leisure 8.75p (Net) Cv Rd Pf.	81p	-6
100p	F.P.	-	115p	96p	Hepworth Cap Fin. 11¼pc Cv. Bds 2005	113p	
100p	25p	-	46½p	26p	Reckitt & Colman 9.5pc Cv Bds 2005	43p	+½
100p	F.P.	-	105p	95p	Wyndham Group 9.375pc Cn Pf	96p	
-	F.P.	-	55p	35p	York Trust 8.5p (Net) Rd.Cv.Pf 20p	48p	+3

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1990 High	1990 Low	Stock	Closing Price p	+ or -
390	Nil	17/8	130pm	113pm	Attwoods	130pm	+9
10	Nil	11/7	¼pm	¼pm	*Caldwell Invs. 10p	¼pm	
17	Nil	–	1½pm	1½pm	Conrad Contl. 10p	1½pm	
70	Nil	20/8	¼pm	¼pm	Electron House 10p	¼pm	
50	Nil	14/8	5pm	3pm	♦Expedier Leisure	3pm	
£50	Nil	–	300pm	100pm	Expl. Co of Louisiana	175pm	-37
150	Nil	6/9	23pm	21pm	Hogg Group	21pm	
37	Nil	14/8	4pm	¼pm	♦Northumbrian Fine Foods	1pm	
220	Nil	23/7	31pm	7pm	Ratners	9pm	+1
250	Nil	–	32pm	30pm	Weir Group	30pm	-1

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. ‡ Earnings based on preliminary figures. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990-91. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1990. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ♥ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ♦ Unlisted securities market. * Third Market. B Units comprising 11 new ord. & 2 warrants. ♦ Issued in connection with reorganisation, merger or takeover.

TRADITIONAL OPTIONS

- First Dealings July 2
- Last Dealings July 13
- Last Declarations Oct. 4
- For settlement Oct. 15

For rate indications see end of London Share Service

Calls in Aviva Pet., Berisford Intl., Gaelic Res., Monument Oil & Gas and Burton. Puts in Berisford Intl., Trencherwood and World of Leather. Puts and calls in Berisford Intl. and Eurotunnel warrants.

LONDON TRADED OPTIONS

[illegible]

Option		Calls			Puts		
[illegible] (*204)	220	3½	13	21	19	22	23
Land Secur (*519)	460	60	78	92	1	4	6
	500	20	46	62	2	11	14
	550	1½	19	33	33	37	38
M & S (*227)	200	28	37	43	1	2½	4
	220	9	22	28	2½	6½	8½
	240	1½	10	16	15	16	18
STC (*260)	240	23	35	46	2	9½	13
	260	6	23	34	6	19	23
	280	2½	13½	26	22	32	34
Sainsbury (*284)	260	26	37	45	1½	4	5
	280	8	22	33	3	10	12
	300	2	12	20	17	20	22
Shell Trans. (*445)	420	26	43	58	2	9	11
	460	3	19	45	17	27	30
	500	1	7	18	57	57	58
Storehouse (*122)	110	13	18	22	1½	3½	6
	120	4	12	15	3	7	9½
	130	1½	7	10	11	14	16
Trafalgar (*288)	280	15	30	37	3	12	22
	300	5	19	27	17	23	33
	330	1½	10	16	45	45	60
R.T.Z. (*543)	500	53	70	87	3	8	13
	550	16	40	55	18	27	34
Scot. & New (*338)	330	14	28	37	14	20	25
	360	3	15	23	37	38	42
Tesco (*225)	220	12	18¼	26¼	4	7	9
	240	2¼	8¼	15¼	17	18½	19¾
Thames Water (*149)	140	10	12	16	7	10	14
	160	2½	6	9	25	25	26
Water Hldg Plg (*£1560)	1550	40	80	160	140	140	175
	1600	30	70	120	190	190	215
Option		Jul	Sep	Nov	Jul	Sep	Nov
Ferranti (*33)	30	4	6	8	1	2	3
	35	1	3½	5	4	5	6
Lucas Inds (*162)	160	4½	13	17	3	7½	10
	180	½	4	6½	20	21	22
Option		Aug	Oct	Dec	Aug	Oct	Dec
Reuters (*1259)	1250	50¼	90	130	31¼	49	61¼
	1300	27¼	65½	104	61	77¼	88

FT-SE INDEX (*2328)	2200	2250	2300	2350	2400	2450	2500	2550
[illegible]								
Dec	39	–	67	–	103	–	153	217
Mar	60	–	90	–	115	–	157	210
Jun	65	–	92	–	115	–	157	203
CALLS								
Jul	155	109	70	36	17	7	3	1
Aug	181	139	102	70	46	30	19	11
Sep	204	164	128	97	72	51	35	23
Oct	228	190	155	123	94	72	54	37
Jun †	345	–	278	–	218	–	165	–
Dec †	266	–	192	–	130	–	83	–
PUTS								
Jul	5	10½	21	43	80	125	175	225
Aug	15	24	40	60	92	129	175	225
Sep	23	33	47	67	93	132	176	226
Oct	30	42	57	77	104	137	179	225
Jun †	62	–	92	–	132	–	192	–
Dec †	37	–	61½	–	108	–	180	–

July 10 Total Contracts 27,758
Calls 18,088 Puts 9,670
FT-SE Index Calls 1542 Puts 1430
Euro FT-SE Calls 102 Puts 6
*Underlying security price. † Long dated expiry months

UK COMPANY NEWS

Increased interest charges hold Howden to £22.15m

By Vanessa Houlder

HOWDEN GROUP, the Glasgow-based engineering company, yesterday announced a 29 per cent rise in pre-tax profits from £17.19m to £22.15m for the year to April 30.

Turnover increased from £236.68m to £315.52m. Earnings per share rose by 24 per cent from 12.2p to 15.1p.

Mr Johnny Johnsen, chairman, said the group was affected by the difficulties created by high interest rates, inflation, the uncertainties surrounding exchange rates and the timing of environmental and infrastructure projects. "Nevertheless, the group faces the 1990s with confidence and is well placed to make further progress," he said.

The profits increase was ascribed to the group's acquisition and restructuring programme of the past three years. However, the result was held back by a doubling of borrowings to £48m and a rise in interest charges from £1.61m to £3.46m.

The increased borrowings resulted from the need for extra working capital to fund its four large tunnelling machines for the Great Belt contract in Denmark. The costs of this project substantially exceeded original estimates after design changes. Howden said it had placed significant claims for these extra costs.

The four tunnelling machines on the Channel Tunnel project were however progressing "extremely well", the company said.

The landward drive service tunnel machine completed its dig ahead of schedule while the marine service tunnel machine is now working in French territory and holds the world record for the longest tunnel ever driven under the sea by a single machine, it said.

The air and gas handling equipment division benefited from an increased contribution from Howden Compressors and Howden Sirocco, which has won a £20m order for the UK flue gas clean-up programme.

Good progress was reported by the aerospace equipment and processing and packaging equipment divisions.

There was an extraordinary charge of £2.3m, due to restructuring costs.

A final dividend of 3.56p is proposed making a total of 5.15p for the year, an increase of 12 per cent.

● COMMENT

Although Howden's hefty profits improvement came as little surprise, its confidence about the future merited a 5 per cent rise in its share price. It has a chunky order book, a broad geographical spread of businesses and a number of rationalisation and integration benefits yet to come. As analysts pencilled in another sizeable profits increase this year, the company increased its claim to be one of the few bright spots of the engineering sector. As a result, the shares, at 155p, look reasonably good value on a prospective p/e of 9 – assuming the company makes £26m profit this year.

Severe branch pruning to trim losses

David Barchard looks at the latest round of estate agency closures by the Prudential

"SIZE IS not a virility symbol", said Mr Brian Medhurst, managing director of Prudential Property Services, unveiling the second large scale round of branch cuts by the company in less than two years.

None the less, the scaling down of Prudential Corporation's ambitions in what is generally considered to be a strategically crucial area in the retail financial services markets is unmistakeable. In the mid-1980s, Prudential built up the largest estate agency network in the UK at a cost of over £235m in good will and seemed to have achieved a massive dominance over its rivals.

When the housing market turned down Prudential found itself exposed to losses well above those of its main competitors. Inside the estate agency world, it is generally believed that PPS is losing some £1m a week and on course for losses in 1990 which will be about or perhaps even above the 1989 level of £48.9m.

Hopes of the long-awaited upturn in the housing market, which would restore the chain to profitability, look faint. Property sales are at their lowest level for 36 years and a recent survey from Nationwide Anglia showed that house prices had fallen by 5.3 per cent across the country in the last twelve months.

PPS's sales slumped from 88,000 in 1988 to 39,500 in 1989, and according to Mr Medhurst 1990 is not turning out to be any better than last year.

The company's troubles were accentuated by the determination of Mr Joe Bradley, its general manager until last year, to invest heavily in technology and create a sophisticated computer network linking its branches.

In these circumstances it may not seem very remarkable that Prudential has already chosen to back out and write down about £150m of the £235m it spent on estate agency operations.

Mr Medhurst admits that the reduced branch network of 500 is not an ideal number. "For full national coverage, an estate agency needs about 1,000 branches," he said yesterday. This is the level which PPS was openly aiming not long ago and came close to achieving.

Although it has closed nearly 300 branches, its two main rivals, Royal Insurance and Halifax Building Society, show no signs of making a similar cutback. Although Royal has shed 42 branches in the last 18 months, its branch network has grown during the course of the year.

Halifax too says it sees estate agency business as a long term investment. Mr Derek Taylor, managing director of Halifax Estate Agencies, says he is not contemplating scaling down his agency's market presence. Its network has mushroomed from 500 to 700 in the last year.

Building societies came into the estate agency market later than the insurance companies because they did not gain the legal power to own agencies until 1988. Only Nationwide Anglia has cut back heavily on its network, announcing plans last autumn to shut 90 branches.

Analysts yesterday were inclined to see some similarity between the Nationwide Anglia closures and those now being planned by Prudential. In both cases, the rush to build large estate agency chains seems to have led to the purchase of unprofitable branches which later had to be shed.

In spite of the experience of Prudential and Nationwide Anglia new entrants to the market have not been deterred. Last month Town & Country, the 16th largest building society, announced that it was to set up an estate agency chain working on a franchise basis, similar to that originally contemplated by Cornerstone, Abbey National's estate agency chain.

Even more striking, Woolwich, the third largest building society, which originally said it was not interested in a large agency chain, has built one up in the last year.

Its chain, only 13 strong two years ago, now stands at 125. Though Woolwich's estate agency operation runs at a loss like the rest of the industry (it lost £5.4m last year), the cost of building it up has been relatively modest: a mere £4.6m written off in goodwill.

Legal & General, an insurance group which also took a cautious view of the estate agency market, last December paid £19m to buy Whitegates, a 103-branch chain in the north of England.

These moves seem to reflect a belief that a long-term presence in the estate agency market is essential to distribute insurance and mortgage products and that costs can be contained.

"It is still a very difficult market", said Mr Colin Finch, deputy chairman of Hambro Countrywide which last year lost £9m. "But we have contained our costs and expenses and as a group are trading near to break-even now."

Black Horse, the estate agency arm of Lloyds Abbey Life, also detects some hopeful signs even though it closed 77 agencies in 1989. "We are not likely to follow the Pru in a further tranche of closures", Mr Peter Constable, Black Horse chief executive, said.

Black Horse is generally agreed to be one of the chains which has suffered least. It was set up by Lloyds Bank several years before the insurance companies and building societies became interested in estate agencies

Another 12 months without a revival in the housing market may yet change the minds of Prudential's competitors and make them wish they had been similarly vigorous in wielding the scalpel.

Yesterday it seemed that by biting the bullet and admitting that it would never get back much of the money it put into estate agencies in the mid-1980s, Prudential might be conceding ground to its rivals for the rest of the 1990s.

UK ESTATE AGENCIES

	Branches now	Cuts in past 18 months	Losses in 1989 £m
Royal	762	42	24
Halifax	700	–	27
General Accident	612	–	20.5
Prudential	500	295	48.9
Hambros Countrywide	470	55	9
Nationwide	430	90	19
Black Horse	412	77	5.2
Abbey National	391	29	16

Globe board unlikely to pursue BCPF shares purchase probe

By Nikki Tait

THE BOARD of Globe Investment Trust, where the British Coal Pension Funds won control on Friday after a £1.11bn bid battle, met yesterday to discuss their recommendation to shareholders.

In the wake of this, further meetings between the two sides and their advisers were under way late in the afternoon and no statement was forthcoming. Globe said only that it had been "a useful day" and that it hoped to make a formal announcement as soon as possible.

However, it now seems unlikely that Globe's queries to the Takeover Panel, the UK bid watchdog, over some of the BCPF share purchases of Friday will be pursued further.

Globe's questions arose from the fact that some of the shares were purchased for 201p ex-dividend, with payment of the 4p net final dividend making up the bid price. Some of the institutions selling on this basis were "gross funds", and were thus able to reclaim tax paid on the dividend, giving them an effective 206.3p.

At the weekend, BCPF's advisers maintained that there was "nothing unusual" in its action and said they would continue buying in the market either for 205p or for 210p ex-dividend. Yesterday morning, the bidder said that it controlled just under 70 per cent of Globe, although it is still awaiting valid cover on some shares.

Meanwhile, another unit trust group has revealed plans to woo Globe shareholders in the wake of the bid. Gartmore, now part of Banque Indosuez, said that it had been planning to offer a discount to any former Globe shareholder prepared to reinvest money into some of its unit trusts.

It suggested that the discount on the price at which investors would normally buy the units might be about 4 per cent.

The Gartmore announcement follows a novel scheme devised by Legal & General. It is offering to buy up to 20m Globe shares from investors at an effective 211p per share – 6p more than BCPF's bid price – provided they reinvest in L&G's Equity unit trust.

Gardiner doubles to £2.3m

By Andrew Hill

THE BENEFITS of buying Bridgend Group's security business helped more than double profits at Gardiner Group, the distributor of security products, in the half-year to April 30.

Gardiner, which acquired the Bridgend operations last May, made £2.31m before tax after an interest charge of some £650,000 against £1.06m in the equivalent period and interest payments of less than £100,000.

Mr Yashar Turgut, the group's managing director, said borrowings still matched shareholders funds because ADL, which Gardiner bought from Tunstall Group in December, and the new special products division had both returned small losses in the first half. He said both operations were now making profits, and the group was untroubled by the narrowing of interest cover in the last year.

"You can generate cash very quickly in a distribution business so we are quite comfortable," he explained.

Turnover rose from £10.2m to £19.7m in the half year, and earnings per share were up from 1.53p to 2.5p. Gardiner declared an interim dividend of 0.375p (0.3p).

Mr Turgut said trading remained quite buoyant across the group, with new products – such as closed circuit television – making up for some softness in other areas, which he blamed on the economic climate.

"People feeling the pinch of interest rates are postponing installation of alarm systems – for example in south east England at the cheaper end of the market," he said. That had affected Gardiner's business with domestic trade installers.

Gardiner, which has a dominant position in the UK, is hoping to expand further in the fragmented continental European market. The group already has operations in the Netherlands and Belgium.

● COMMENT

Gardiner's inexorable progress seems unlikely to be held back by the cost of borrowings, even if interest rates remain high. The distribution business generates enough cash to support fluctuation in gearing, which rose to 115 per cent at one point in the first half; it should fall to about 75 per cent by the year-end, but looks well-covered by profits whatever happens. Gardiner's large distribution network in the UK provides another element of security, even if the current downturn in the UK persists. The shares, which rose 1p to 61½p yesterday, have been held back recently by rumours that the group might be planning a rights issue, but yesterday's straightforward announcement should have dispelled those fears. Assuming the distribution company makes more than £5m this year, the shares look reasonably attractive on a prospective p/e of about 11.

Listing values Seton Healthcare at £23m

By Andrew Hill

SETON HEALTHCARE Group, which makes sport and health care products, is to raise £5.7m to reduce borrowings when it joins the main market later this month.

Guinness Mahon will place 6.5m shares, about 37 per cent of the enlarged group, at 130p each, 12.8 times historic earnings. The placing values the group at about £23m, and dealings are expected to begin on Monday.

Seton's products include tubular bandages, sold under the Tubigrip name, for example, pharmaceuticals and orthopaedic supplies. The sports and leisure division makes football shinguards and goalkeepers' gloves under the Sondico brandname, as well as cricket clothes and equipment.

The Prince of Wales is said to be wearing a Seton Collar 'n' Cuff brace on his broken arm, and footballers in the recent World Cup have also sported Seton health care products.

After the placing Seton's directors and their families will own about 37 per cent of the enlarged share capital.

Molins condemns latest moves by Leucadia

By Andrew Hill

MOLINS, the cigarette machinery manufacturer, yesterday condemned Leucadia National Corporation's renewed attempt to win control of the company as deplorable.

The US manufacturing and financial services group narrowly failed to win Molins with a hostile bid at the end of May. When the offer lapsed Leucadia was left with a 45 per cent stake.

The US group has since increased its holding to 46.6 per cent and has now requisitioned a special shareholder meeting in an attempt to gain management control.

Molins' shares rose 12p to 291p yesterday.

Mr Neil Clarke, chairman of Molins, urged shareholders to reject Leucadia's efforts to instal six new directors on the board of the UK company and oust himself and two other non-executive directors.

He also attacked Leucadia for allegedly paying 300p a share to increase its stake in Molins, compared with the lapsed 275p a share cash offer.

Leucadia met Molins' management after the hostile bid lapsed, and claims the board rejected the US company's proposals for a possible recommended offer.

Giving the Molins version of events, Mr Clarke said yesterday: "It became abundantly clear once again that Leucadia has nothing to contribute to the management or development of Molins and that its motivation remains, as always, to obtain control of Molins without paying a proper price."

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Braithwaite	fin	5.5	-	5.5	6.9	6.5
Christie Group	fin	1.4	Sept 18	2.6	2.8	4
Empire Stores	fin	0.1	Oct 2	3.575	0.1	5.525‡
Evans of Leeds	fin	4.55	Aug 24	4	6.8	6.15
Gardiner	int	0.375	-	0.3	0.9	0.75
Gibbon Lyons §	fin	4	-	3.4	5.9	5.1
Howden Group	fin	3.56	-	3.18	5.15	4.6
Kingsgrange	fin	nil	-	nil	nil	0.75
Leica	fin	0.68	-	0.61	0.94	0.84
Norfolk House §	int	1.5†	Sept 5	1.125	-	4.5
Porter Chadburn	fin	1.45†	Oct 1	1.2	2.175	1.8
Sims Food §	fin	7.19†	-	6.2	9.83	8.6

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ‡For 15 months.

BOARD MEETINGS

TODAY

Interims- Cardiff Property, Domino Printing Sciences, Granada, M & G Dual Trust, Union Discount Company of London, Williams (J) Inds.

Finals- Barbour Index, Birse, Control Securities, Dixons, Morris Ashby, Thorpac, Wyko.

FUTURE DATES

Interims-

Cowie (T)	Aug. 1
Fairhaven Intl	Aug. 29
Macarthy	July 19
St. Modwen Properties	July 31
Spirax-Sarco Engineering	Sept 26
Throgmorton USM Trust	July 19
WPP	Aug. 7

Finals-

ABM	July 18
Arlen	July 12
Chelsea Artisans	July 19
Independent Inv	July 26
Mercier-Swain	July 20
MITIE	July 20
Rexmore	Aug. 7
Tomkins	July 16

LEGAL NOTICES

NEEDWOOD BRADBURY LIMITED

Registered number: 339022
Nature of Business: Builders Merchants
Trade Classification: 22
Date of appointment of joint administrative receivers: 1 June 1990
Name of person appointing the joint administrative receivers: Security Pacific National Bank
Christopher J Hughes and John F Powell
Joint Administrative Receivers
(Office holder nos 141 and 129) of
Cork Gully
43 Temple Row
Birmingham, B2 5JT

NEEDWOOD ROGERS & JACKSON LIMITED

Registered number: 211005
Nature of Business: Builders Merchants
Trade Classification: 22
Date of appointment of joint administrative receivers: 1 June 1990
Name of person appointing the joint administrative receivers: Security Pacific National Bank
Christopher J Hughes and John F Powell
Joint Administrative Receivers
(Office holder nos 141 and 129) of
Cork Gully
43 Temple Row
Birmingham, B2 5JT

NEEDWOOD GIDDINGS LIMITED

Registered number: 536344
Nature of Business: Builders Merchants
Trade Classification: 22
Date of appointment of joint administrative receivers: 1 June 1990
Name of person appointing the joint administrative receivers: Security Pacific National Bank
Christopher J Hughes and John F Powell
Joint Administrative Receivers
(Office holder nos 141 and 129) of
Cork Gully
43 Temple Row
Birmingham, B2 5JT

NEEDWOOD LYONS LIMITED

Registered number: 1460316
Nature of Business: Builders Merchants
Trade Classification: 22
Date of appointment of joint administrative receivers: 1 June 1990
Name of person appointing the joint administrative receivers: Security Pacific National Bank
Christopher J Hughes and John F Powell
Joint Administrative Receivers
(Office holder nos 141 and 129) of
Cork Gully
43 Temple Row
Birmingham, B2 5JT

NEEDWOOD DIRECTS LIMITED

Registered number: 2284694
Nature of Business: Builders Merchants
Trade Classification: 22
Date of appointment of joint administrative receivers: 1 June 1990
Name of person appointing the joint administrative receivers: Security Pacific National Bank
Christopher J Hughes and John F Powell
Joint Administrative Receivers
(Office holder nos 141 and 129) of
Cork Gully
43 Temple Row
Birmingham, B2 5JT

NEEDWOOD STANBURYS LIMITED

Registered number: 484588
Nature of Business: Builders Merchants
Trade Classification: 22
Date of appointment of joint administrative receivers: 1 June 1990
Name of person appointing the joint administrative receivers: Security Pacific National Bank
Christopher J Hughes and John F Powell
Joint Administrative Receivers
(Office holder nos 141 and 129) of
Cork Gully
43 Temple Row
Birmingham, B2 5JT

STREATLEY CARRIAGE CO LIMITED

We, N J Vooght and J M Iredale of Cork Gully, 9 Greyfriars Road, Reading, Berkshire RG1 1JG were appointed Joint Administrative Receivers of Streatley Carriage Company Limited. Registered Number: 1563691 by Lloyds Bank plc on 29 June 1990.
J M Iredale
Joint Administrative Receivers

NEEDWOOD WISEPART LIMITED

Registered number: 250952
Nature of Business: Builders Merchants
Trade Classification: 22
Date of appointment of joint administrative receivers: 1 June 1990
Name of person appointing the joint administrative receivers: Security Pacific National Bank
Christopher J Hughes and John F Powell
Joint Administrative Receivers
(Office holder nos 141 and 129) of
Cork Gully
43 Temple Row
Birmingham, B2 5JT

NEEDWOOD RANDALLS LIMITED

Registered number: 437469
Nature of Business: Builders Merchants
Trade Classification: 22
Date of appointment of joint administrative receivers: 1 June 1990
Name of person appointing the joint administrative receivers: Security Pacific National Bank
Christopher J Hughes and John F Powell
Joint Administrative Receivers
(Office holder nos 141 and 129) of
Cork Gully
43 Temple Row
Birmingham, B2 5JT

NEEDWOOD CROWTHER LIMITED

Registered number: 85284
Nature of Business: Builders Merchants
Trade Classification: 22
Date of appointment of joint administrative receivers: 1 June 1990
Name of person appointing the joint administrative receivers: Security Pacific National Bank
Christopher J Hughes and John F Powell
Joint Administrative Receivers
(Office holder nos 141 and 129) of
Cork Gully
43 Temple Row
Birmingham, B2 5JT

NEEDWOOD HIGGINS AND HALL LIMITED

Registered number: 798211
Nature of Business: Builders Merchants
Trade Classification: 22
Date of appointment of joint administrative receivers: 1 June 1990
Name of person appointing the joint administrative receivers: Security Pacific National Bank
Christopher J Hughes and John F Powell
Joint Administrative Receivers
(Office holder nos 141 and 129) of
Cork Gully
43 Temple Row
Birmingham, B2 5JT

NEEDWOOD HUGHES LIMITED

Registered number: 1230859
Nature of Business: Builders Merchants
Trade Classification: 22
Date of appointment of joint administrative receivers: 1 June 1990
Name of person appointing the joint administrative receivers: Security Pacific National Bank
Christopher J Hughes and John F Powell
Joint Administrative Receivers
(Office holder nos 141 and 129) of
Cork Gully
43 Temple Row
Birmingham, B2 5JT

NEEDWOOD BUILDERS MERCHANTS LIMITED

Registered number: 2285006
Nature of Business: Builders Merchants
Trade Classification: 22
Date of appointment of joint administrative receivers: 1 June 1990
Name of person appointing the joint administrative receivers: Security Pacific National Bank
Christopher J Hughes and John F Powell
Joint Administrative Receivers
(Office holder nos 141 and 129) of
Cork Gully
43 Temple Row
Birmingham, B2 5JT

PERSONAL

NEEDWOOD COWGILL LIMITED

Registered number: 75968
Nature of Business: Builders Merchants
Trade Classification: 22
Date of appointment of joint administrative receivers: 1 June 1990
Name of person appointing the joint administrative receivers: Security Pacific National Bank
Christopher J Hughes and John F Powell
Joint Administrative Receivers
(Office holder nos 141 and 129) of
Cork Gully
43 Temple Row
Birmingham, B2 5JT

COMPANY NOTICES

LEUMI INTERNATIONAL INVESTMENTS N.V.

US $20 MILLION GUARANTEED FLOATING RATE NOTES 1990 SERIES B

The interest rate applicable to the above Notes in respect of the three months period commencing 11th July 1990 has been fixed at 8⅝% per annum.
The interest amounting to US $22.04 per US $1,000 principal amount of the Notes will be paid on Thursday 11th October 1990 against presentation of coupon No. 39.

BANK LEUMI TRUST CO OF NEW YORK
Principal Paying Agent

bank leumi בנק לאומי

UK COMPANY NEWS

FST pays £9m for 44 Ind Coope pubs

By Graham Deller

AS INTIMATED in its recent preliminary statement, Fuller Smith & Turner, the West London-based brewer, is taking steps to enlarge its UK public house estate in a £9m deal.

The group, renowned for its ESB and London Pride bitters, is spending a sizeable chunk of its cash resources to acquire 44 pubs from Allied-Lyons' Ind Coope Retail division, raising the total of Fuller's pubs to over 200.

Mr Anthony Fuller, chairman, said the Monopolies and Mergers Commission report on the industry had "offered us a great opportunity to expand and this deal is only the first that we are hoping to be able to announce".

He added: "These new pubs are ideally located in areas that fit our long term plans and give us an excellent base for further purchase."

Mr Fuller confidently expects to be able to build trade in the newly-acquired outlets. "Virtually all the pubs that we have bought in the past have increased their barrelage considerably".

Last Friday Fuller unveiled taxable profits ahead 18 per cent to £8.5m for the year to end-March, achieved on turnover of £59.4m (£52.8m).

● In a separate deal yesterday Ind Coope Retail is selling 33 houses in Kent, Sussex and Surrey to Faversham-based Shepherd Neame for £5.85m cash.

Mr Robert Neame, chairman, said the deal, which brings Shepherd Neame's estate across London and the south-east to 396 pubs, will offer an immediate 10 per cent increase in barrelage and give the brewery representation in the M25 corridor.

Correction

Wiggins Teape

Wiggins Teape Appleton's share register has been reduced by around 25,000 shareholders since its demerger from BAT Industries. It was incorrectly reported in yesterday's Financial Times that the reduction had taken place in BAT's share register.

'Mad cow disease' scare will hit profits in current year

Sims makes 33% advance to £8m

By Clay Harris, Consumer Industries Editor

THE "mad cow disease" scare will hit profits this year at Sims Food Group, the USM-quoted meat supplier, even though increases in lamb, pork and poultry sales have helped so far to compensate for the fall in demand for beef.

Mr Ron Randall, chief executive, said yesterday that Sims's beef sales were running 15 to 20 per cent below the same period a year ago, before the recent publicity about bovine spongiform encephalopathy. In the longer term, however, Sims expects to benefit from the BSE episode because of the rationalisation of the UK beef processing industry.

Sims yesterday reported pre-tax profits up by a third to £8.07m (£6.05m) in the year to March 31 on turnover ahead by 17 per cent to £167.9m (£143.3m). Earnings per share advanced by 16 per cent to 22.5p (19.4p), and a final dividend of 7.19p will raise the total by 14 per cent to 9.83p (8.6p).

Mr Randall said Sims bought all animals direct from farmers and that none of its suppliers had reported BSE in their herds. Any which did would be dropped immediately, he said.

By the end of the financial year, the company expects all of its processing facilities to hold European Community licences; 80 per cent do at present.

Mr Randall predicted that tighter licensing requirements because of BSE would speed the consolidation of the beef processing sector as smaller operators decided they could not afford the necessary investment in the face of reduced demand.

He expects overall beef demand in the UK to settle at about 90 per cent of pre-BSE levels. Sims had increased capacity in lamb and poultry even before the BSE scare.

Catering sales in the south of England were restrained in 1989-90 by high interest rates. Sims said it did not expect significant organic growth in the division this year.

Most of the group's improvement in the pre-tax margin from 4.2 to 4.8 per cent was attributable to income received for processing meat which was not included in turnover.

An extraordinary debit of £262,000 reflected the costs incurred in centring all beefburger operations at Bristol less the profit of £176,000 achieved on the sale of Charnwood Fayre, a game and poultry dealer, to the unit's management.

● **COMMENT**

As the most pure play in UK beef processing – Bernard Matthews is still heavily skewed towards poultry and abattoir leader Hillsdown Holdings is much larger and much more diverse – Sims is in an unenviable position. Even if the sanguine scientific consensus on BSE is unshaken, beef will remain vulnerable to new scares and longer term changes in diet. But there are opportunities for well-managed companies even in stagnant industries, and Sims's 5 per cent gearing gives it scope to be opportunistic. It should also gain business from retailers which are increasingly concerned about guaranteed quality. The short-term view, however, is not favourable. Profits this year will do well to match the 1989-90 figure and are more likely to fall short of it. Assuming £8m pre-tax, the shares stand on a prospective p/e of 10 at yesterday's unchanged price of 218p. For investors who have ridden the shares down from a 1987 peak of 471p, there seems little reason to bail out now. Equally, why volunteer for the slaughterhouse?

Mild winter leaves Braithwaite at £2.3m

By Andrew Hill

PROBLEMS integrating two subsidiaries cut profits at Braithwaite, the industrial services group, from £6.53m to £2.3m in the year to March 31.

Mr Andrew Fitton, chief executive, also blamed a second consecutive mild winter, which hit demand for portable heating and drying equipment hired out by Andrew Sykes, the group's core subsidiary.

Braithwaite warned in March that second half profits would be down because of the mild weather, and trading profits slipped 19 per cent during the year. But yesterday's figures also revealed the hefty exceptional cost of closures, redundancies and reorganisation at Andrews Sykes – the environmental hire business formed from a merger between two existing subsidiaries.

Mr Fitton said profits were buoyed during last year's hot summer by the hire of air conditioning equipment, but added: "The summer was so good that it disguised an underlying problem which the bad winter exposed: the integration of Andrews Sykes was not going as well as it should have been and that's why we've now attacked the cost base."

The restructuring knocked £1.25m off pre-tax profits. Integration and launch costs of Centahire, the new tool hire division, cost a further £204,000 and Braithwaite has written off £311,000 on its 3 per cent stake in Venture Plant Group, a USM-quoted plant-hire company which reported an interim loss in May.

Interest charges increased to £2.96m (£2.17m), although gearing has actually come down from 285 per cent to 85 per cent with the sale of Godiva, its fire-fighting equipment subsidiary.

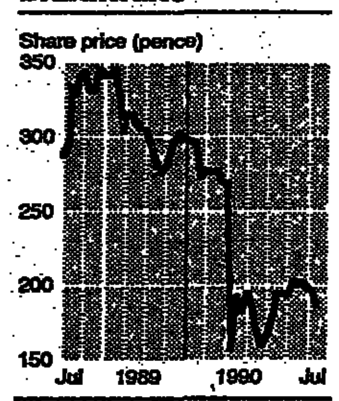
Earnings per share were cut from 27.6p to 5.6p, but the final dividend is maintained at 5.5p, making 6.9p (6.5p) for the year.

Mr Fitton said the next 12 months would be "a period of consolidation", during which the benefits of cost-cutting at Andrews Sykes would begin to come through.

● **COMMENT**

Braithwaite's shares plunged over a cliff-edge when it issued its profits warning in March. They slipped a further 10p yesterday to 187p. In the short term that means the management team of Mr Fitton and Mr Stuart Ross, finance director, will have difficulty returning the shine to Braithwaite's slightly tarnished record. To reduce dependence on the seasonal equipment hire business, Braithwaite seems keen to expand other operations, for example in the lucrative area of building maintenance services. But Mr Fitton seems to realise that most observers want proof that he can manage the group in bad times as well as good. Potential investors are likely to wait until the interim figures emerge towards the end of the year before backing the Fitton/Ross partnership again. The shares should be worth holding on a prospective multiple of about 8, assuming the group makes more than £5m before tax in the current year.

Braithwaite



Kingsgrange at £0.22m after higher interest

AFTER RETURNING to the black with profits of £309,000 at the half way stage Kingsgrange, the toiletries manufacturer, finished the year to end-April with pre-tax profits of £215,000.

This compares with losses of £2m in the previous year and was struck on turnover up 10 per cent from £18.95m to £20.86m.

Trading profits advanced just £38,000 in the second half to £1.4m for the year. Trading losses last year came to £311,000.

Interest surged to £1.2m, compared with £800,000 last time. Mr James Nelson, chairman, said the increase was a consequence of financing considerations relating to previous acquisitions, increased working capital requirements and higher interest rates.

There was an extraordinary item of £1.1m, primarily due to the withdrawal from the North American joint venture, which accounted for £800,000. The remainder related to the closure of the London office and other reorganisation costs.

In April the company raised £4.3m via a rights issue, the proceeds of which have been used to reduce group borrowings.

Earnings per share came out at 1.5p (12.5p loss). Attributable losses were reduced from £2.47m to £821,000 but there is no final dividend.

However, said Mr Nelson, it was the board's intention to resume payment of dividends as soon as the group achieves an acceptable level of profitability.

Enlarged Norfolk House improves 37% to £5.25m

NORFOLK HOUSE Group, the USM-quoted developer and operator of petrol service stations, turned in a 37 per cent rise in pre-tax profits from £3.83m to £5.25m in the six months to end-March.

The result was achieved on a 10 per cent increase in turnover from £40m to £43.85m.

During the period the group made a number of acquisitions including several petrol stations and roadside development sites, and in February it raised about £20.8m by way of a rights issue to fund future expansion.

Mr Thomas Harrison, chairman and chief executive, said the integration of the acquisitions continued to go well and they were expected to contribute positively to earnings in the second period.

Norfolk's roadside development business in Spain, where it expects to begin operating petrol stations in 1991, and its fuel retailing and roadside development operations in the UK, were all performing well he said.

Although the sales promotion division had not shown the growth of the other two divisions, the board was confident that in the medium term it would make a meaningful contribution to profits.

Tax took £1.84m (£1.34m) after which earnings per 5p share improved 22 per cent to 12.3p (10.1p). The interim dividend is raised to 1.5p (1.125p).

The year-end has been changed from September 30 to November 30, which will result in an eight-month second period.

Optical side holds back Leica

By Nikki Tait

LEICA, the company formed from the merger of Cambridge Instruments of the UK and Wild Leitz, the Swiss camera and optical instruments group, yesterday reported pre-tax profits of £6m, compared with £5.86m in the previous 12 months.

The year-end is March 31, however, and therefore precedes the formal implementation of the merger – which was only completed in April after lengthy US regulatory delays. This means that the figures merely reflect the trading of Cambridge Instruments over the 12-month period.

As such, they show a small decline in operating profits from £6.64m to £6.31m, in spite of sales up from £127.9m to £134.5m. This was due to a sharp drop in profits from the optical instruments division – £2.4m against £5.03m – and only partly offset by a rise on the scientific instruments side, which made £3.39m (£1.95m).

Yesterday, Leica blamed much of the downturn in the optical instruments division on uncertainties arising from the merger news, claiming that this produced worries among its dealer network.

The effect on pre-tax profits would have been more marked had the interest charge not reduced from £787,000 to £308,000 and exceptional profits chipped in a further £525,000 (nil). The latter item arises from the sale of the remaining semi-conductor related business.

Earnings per share, after a 19 per cent (8.4 per cent) tax charge, stood at 4.94p, down from 5.49p in the previous year. There is a final dividend of 0.68p (0.61p), making 0.94p (0.85p) for the year.

Mr Terry Gooding, chairman, maintained yesterday that the merger was proceeding according to plan, with sales teams and distribution integrated, and product development next on the list. The head office is now in Switzerland, and Unotec Holding now owns about 71 per cent of the shares.

Gearing for the merged company is still in excess of 100 per cent. Mr Gooding said the plan was to cut capital employed over time, rationalise properties within the group, and dispose of some of the smaller non-core businesses.

Leica shares were 1p weaker yesterday at 56p.

Evans of Leeds ahead to £7.55m

Evans of Leeds, a property investment and development group, yesterday reported taxable profits of £7.55m for the 12 months to March 31 – up from £7.12m in the previous year.

Net asset value of the group, taking stock properties at market value, amounted to £152.8m, equivalent to 468p per share – a rise of some 49 per cent. Evans shares rose 5p to 265p yesterday.

Gross rental income expanded 16 per cent to £13.43m, but proceeds from the sale and development of properties dipped to £768,000 (£1.42m). Net interest charges accounted to £4.81m, against £3.52m last time.

Earnings worked through at 15.7p (13.8p) per share and a recommended final dividend of 4.55p lifts the total for the year from 6.15p to 6.8p.

A one-for-one scrip issue is also proposed.

Christie Group profits drop to £1.21m

REDUCED pre-tax profits of £1.21m compared with a previous £4.58m were reported by Christie Group, the specialist business agency, for the year to March 31 1990.

Turnover was marginally ahead at £25.02m (£24.56m), but Mr Philip Gwyn, chairman, said that the company was facing more difficult trading conditions than he could recall in 16 years.

He said, however, that the company was determined to increase its share of a highly fragmented market. The poor trading conditions in the core agency activity reflected illiquidity and downward pressure on prices in the housing market.

Prospects depended on the market and the company's position within it, Mr Gwyn said, adding that the core activities each represented the leaders in their markets. In addition, the company felt that the bottom of this business cycle had been reached.

The recommended final dividend is reduced to 1.4p (2.6p) for a 2.8p (4p) total. Earnings per 5p share fell to 4.36p (13.65p).

Gibbon Lyons shows 47% gain to £1.49m

GIBBON LYONS Group, the USM-quoted maker of printing inks and related products, lifted pre-tax profits 47 per cent, from £1.02m to £1.49m, in the year ended March 31 1990.

The chairman said that the group would continue to prosper throughout the coming year even without seeing an end to the present recession.

A final dividend of 4p (3.4p) is recommended for a 5.9p (5.1p) total. Earnings per share worked through at 14p (11.5p) basic and 13.1p (10.8p) fully diluted.

Turnover improved by 41 per cent to £22.19m (£15.78m) and the pre-tax result was after increased interest charges of £963,138 (£466,294) and an exceptional charge of £169,521 (nil).

Tax took £517,320 (£348,154) and there was an extraordinary £167,533 debit (£113,025 credit).

CRI INSURED MORTGAGE ASSOCIATION INC.

USD 140,000,000 Guaranteed Secured Floating Rate Notes due 1998

In accordance with the terms and conditions of the Guaranteed Secured Notes, notice is hereby given that for the period from July 10, 1990 to October 10, 1990, the guaranteed Secured Notes will carry an interest of 8.0625% per annum accruing on the outstanding principal amount of each Note.

The relevant interest payment date will be October 10, 1990 and the coupon amount of interest payable per Guaranteed Secured Note will be USD 2,064.65.

Banque Générale du Luxembourg S.A.
Agent Bank

UK COMPANY NEWS

Acquisitions help Porter Chadburn advance 69%

By David Owen

PORTER CHADBURN, the upholstery, packaging and consumer leisure products group, yesterday unveiled a 69 per cent advance in both turnover and pre-tax profits for the year to March 30, buoyed by first-time contributions from new acquisitions.

The figures mask a second-half slowdown in the fabric and finishing equipment distribution businesses, however. Profits for the six months to September 1989 had soared by 92 per cent.

Mr Raymond Dinkin, chairman, said that the company had made an encouraging start to the present year "although trading conditions continue to be unhelpful". The shares rose 1p to close at 84p.

Group profit advanced to £7.2m pre-tax, against £4.3m. Turnover improved from £60.72m to £102.5m. Businesses acquired during the year, notably the Lord Label Group, a US supplier of adhesive labels, contributed £20m to turnover and £2.2m to operating profit.

Earnings per share increased 20 per cent to 8.94p (7.43p), following the £11.9m rights issue in May 1989. A final dividend of 1.45p (1.2p) is recommended, making a total of 2.175p (1.8p).

A breakdown of the results showed that consumer leisure products contributed operating profit of £3.78m on turnover of £43.2m; packaging, £3.11m on £40.4m; and specialist distribution, £1.86m on £18.2m.

Lord Label's results were included for 11 of the 12 months and the Fleckhope group of fishing tackle companies for four. Porter Chadburn claims to have the leading fishing tackle group in the UK, although it said the division was adversely affected in the year just ended by "the long, dry summer".

Since the year end, the group has agreed to sell its engineering activities, which last year generated operating profit of £573,000 on £8.6m of turnover, to Widney of Solihull for a minimum of £3.79m.

The group said the sale would enable it to concentrate more on its core growth areas. According to Mr Dinkin, the proceeds will be used initially to repay debt. At the year-end, net borrowings totalled £7.6m, compared with shareholders' funds of about £22m.

Trevor Humphries

John Gratwick (left) and Michael Harris, managing director

Empire profit beats City expectations

By Maggie Urry

MR JOHN Gratwick, chairman of Empire Stores Group, the mail order company, was yesterday in more optimistic mood than for some time when reporting a return to profit for the year to April 28 after a first half loss.

The figures compared with a previous 15 month accounting period. However, on a comparable basis, sales were 4.9 per cent up at £228.89m, after a rise in the first half of 3.3 per cent. Operating profits were halved at £4.11m, and a sharp rise in the interest charge from £2.8m to £5.32m gave a pre-exceptional loss of £1.21m (profit of £5.7m). In the previous 15 months sales were £269.05m and pre-tax profits £6.15m.

Although only a nominal 0.1p final dividend is proposed, and earnings per share were 0.3p, Mr Gratwick, who is due to retire shortly, expected substantial cost savings to be made in the current year. For example, an efficiency drive had reduced staff to the extent that the group's total wage bill will not increase in the current year in spite of an 8 per cent wage rise.

The balance sheet showed a rise in net debt to £39.8m, 66 per cent of shareholders' funds. Mr Gratwick said the level of debt reflected the nature of the business which sells on credit, and was not a concern.

● COMMENT

Empire's results were better than analysts had expected, and the rot has clearly been stopped. For that much, the largely new management team deserves praise. Having said that, the group is by no means out of the woods yet. Management seems confident that an efficiency drive, cost cutting, new controls on the credit advanced to customers, new delivery arrangements and the like will lead to substantial cost savings in the current year. However, Empire's efforts to modernise its operations may still leave it behind other mail order companies. This year is likely to see a further rise in interest charges, and probably not much improvement in the market. So, though Empire ought to turn in a higher profit this year, it will probably be in low single figures, giving a p/e perhaps in the high 20s. There should be more than a token dividend, though not enough to give much of a yield. With 62 per cent of the shares in the hands of three holders, none of which is expected to bid, there is little scope to buy even if there were the incentive.

Manx ferry guarantees sought

By Sue Stuart in Douglas

THE ISLE of Man Government is trying to get a guarantee of continuing ferry services to the island from Sea Containers, which is making a hostile bid for a controlling interest in the Isle of Man Steam Packet Company.

Mr Miles Walker, the Manx Chief Minister, yesterday told Tynwald, the Manx Parliament, that discussions had taken place with the company, which already owns 41 per cent of the Steam Packet, but so far the Government has received only a holding reply.

The 160-year-old Steam Packet is regarded by islanders as being their main lifeline. A reduction in services would affect not only personal travel but also the flow of vital commodities.

The Isle of Man Government also plans to buy one of the island's two linkspans from Sea Containers. The linkspan is the portable bridging unit that fits between the quay and the ferry, an essential component of roll-on roll-off ferry operations.

Sea Containers owns both linkspans, sited in Douglas harbour. But the company has been given notice by the Manx Government that the lease for siting one of them will not be renewed when it expires in April 1991.

A debate on the purchase of a linkspan is expected in Tynwald late today or tomorrow, and it is anticipated it will focus heavily on the proposed Sea Containers takeover.

Mr Walker said yesterday that ownership of the Steam Packet was not important as long as arrangements were guaranteed to provide a suitable ferry service.

Mr Richard Leventhorpe, a member of Tynwald, failed to get an emergency debate yesterday on a resolution calling for ownership of Steam Packet shares to be restricted to 15 per cent by any person or associate. There was, however, sufficient support to indicate the takeover is viewed as threatening by many islanders.

Steam Packet shares slipped 1p to 120p yesterday, still 5p above the Sea Containers cash offer, which values the ferry operator at £17.25m.

Pulbrook syndicate plans to sue

By Eric Short

THREATS of legal action were made yesterday by members of the troubled Lloyd's syndicate, Pulbrook Marine Syndicate 334, who are facing a call for £29m to meet the liabilities during the 1985 year, business for which is still open.

The 150 members attended a meeting yesterday in Lloyd's Old Library and heard that the demand arose because the reinsurance arranged with another Lloyd's syndicate, Merrett Syndicate 418, was void because of non-disclosure of material facts.

Syndicate 334 was a marine syndicate which many years ago insured some incidental non-marine business, including US liability risks.

It is now facing claims on this incidental business going back over 30 years relating to industrial diseases, such as asbestosis, and pollution.

The members had been assured by the syndicate manager, Pulbrook, that they were protected by an unlimited reinsurance policy with Syndicate 418 regarding claims which arose before 1976. However, last year the syndicate declared the policy void because of non-disclosure.

Yesterday members were told that arbitration had upheld this contention and the High Court had refused leave to appeal.

Pulbrook is now part of the Merrett Group, though at the time when the reinsurance was arranged it was owned by Stewart Wrightson. Nevertheless, Stephen Merrett, head of the Merrett Group, was accused of conflict of interest by members at the meeting.

Members agreed to seek counsel's opinion as to whether the members' agents could escape contractual liability because the non-disclosure occured more than six years ago or alternatively whether they could sue the agents.

Half of the more than 400 members of Syndicate 334 are also members of Pulbrook Non-Marine Syndicate 90. Members of this latter syndicate face a call of £16m on top of losses of £16m already paid for the open year 1982 and have issued writs against their agents and brokers.

Oriflame to raise £7.34m for east Europe venture

ORIFLAME International, the Swedish-run cosmetics group which is only listed in London, is seeking £7.34m from shareholders to inject into a new associate which will market its products in eastern Europe.

In an unusually structured issue, it is offering shareholders 7.34m shares in Oriflame Eastern Europe (Oresa), on the basis of one for every seven held in the parent.

Oriflame will retain only 25.4 per cent of Oresa after subscribing for 2.5m shares.

Oresa shares carry no par value, are not to be listed on any stock exchange, and no dividends are envisaged "in the foreseeable future".

Mr Robert af Jochnick, chairman, said yesterday: "I realise that an investment in Oresa is highly speculative, and that there is a risk the entire investment could be lost. Consequently I do not feel that it is appropriate for Oriflame, as a quoted public company, to invest on its own behalf more than £2.5m."

Oresa will be chaired by Mr Jonas af Jochnick, his brother, who will be underwriting the share issue himself.

The new offshoot will aim to set up direct selling organisations initially in Czechoslovakia, Hungary and Poland and is already seeking joint ventures with manufacturers in these countries.

The offer closes on August 7, with 60p per share payment due then and the remaining 40p six months later.

In the year to end-March Oriflame showed a fall in pre-tax profits to £9.63m from £13.21m. During the year it spun off Goldsmiths Group, a jewellery chain, in a £32.89m offer which met a poor response.

Atkins Brothers shares jump on bid approach

By Nikki Tait

Shares in Atkins Brothers (Hosiery) jumped sharply yesterday after the small Leicester-based textile group announced that it was in talks with a third party which might lead to a bid for the company.

Atkins declined to elaborate or say when it expected to have further news. The announcement is understood to have been prompted by the 17p jump in the share price to 157p on Monday. The shares rose another 21p yesterday, capitalising the company at £8.7m.

There are a handful of institutional investors with sizable stakes in Atkins, including Framlington Group, with almost a quarter of the equity. Charterhall, the troubled UK vehicle for Mr Russell Goward, the Australian entrepreneur, previously held a 9 per cent stake but this was bought in by the company last February at 140p.

Last month, Atkins announced a drop from £1.27m to £870,000 in pre-tax profits on sales of £19.38m.

News Int arm buys Unwin Hyman

HarperCollins Publishers, a subsidiary of News International, has reached agreement to purchase the entire share capital of Unwin Hyman, the UK publisher.

Management buy-outs are being concluded for Unwin's Australian unit, Allen and Unwin Australia, and discussed with the management of the New Zealand offshoot Allen and Unwin NZ. The US unit of the group will become part of HarperCollins North America.

Unwin Hyman's 1989 turnover exceeded £16m (£8.8m), with half of this earned in the UK. The financial details were not disclosed.

NEWS IN BRIEF

AUTOMATED SECURITY (Holdings) has reached agreement with Security Tag Systems of Tampa, Florida, to purchase the outstanding 50 per cent of Securitag International for $1.8m (£1m).

CATER ALLEN Holdings rights issue taken up in respect of 3.88m shares or 90.04 per cent. Balance sold in market at 355p per share.

ST IVES, printing and packaging company, is moving into electronic publishing technology with the acquisition of Talbot Publishing Systems. The consideration is performance related and over five years could be anything between £1.2m and £3m. Founded in 1983 Talbot's main product is an Apple Macintosh system designed for newspapers.

SYSTEMS RELIABILITY Holdings has acquired Analogue Computer Services, which provides specialist services on Dec mainframe computers. Initial consideration is £100,000 in shares and cash, but future profit-related payments could take the total up to £1m.

COMMODITIES AND AGRICULTURE

Renewed Middle East selling hits gold price

By David Blackwell

THE GOLD price fell sharply yesterday as Middle East selling again hit the market.

The sales, reportedly through the National Commercial Bank of Jeddah, were not so heavy as a month ago, when they sparked near panic and took gold down to just above $340 a fine ounce. But the market has become thin and nervous, and any hint of Middle East selling is enough to push the price down quickly. It closed at $354 an ounce, down $4.25.

"It's like Gulliver dipping his finger in the sea and causing a tidal wave," said Mr Andrew Smith, precious metals analyst with UBS Phillips & Drew, stressing the thinness of the market. "They could all take a holiday and feel better for it."

Last Wednesday gold climbed back above $360 an ounce on a fairly modest wave of Middle East buying. Analysts were encouraged that producers were not selling into the rally – but the market has proved unable to maintain the advance.

Yesterday the pattern was similar to the last three big falls in the gold price, according to Ms Rhona O'Connell, analyst with Shearson Lehman Hutton. The small volume of sales was enough to make the market nervous all over again.

She believed the market should start to work its way back towards $360, but said it would be "an awful long time licking it's wounds before it gets better."

Mr Michael Spriggs of Warburgs said the confidence of the market had been so unsettled recently that it could "come off in the blink of an eyelid."

Mr Peter Miller, of Yorkton Continental Securities, points out in a newsletter this week that many factors are converging to suggest a major cyclical bottom is near, "the two major negative factors being global real interest rates and the unknown level of Russian bullion sales."

Among other factors he cites good demand for jewellery, the fact that global supplies of newly-mined gold will peak in the next six to nine months; and the fact that all the major producing countries are facing problems of one kind or another.

Wheat Council sees slower grain consumption growth

By David Blackwell

GROWTH IN world wheat and coarse grain consumption is likely to be slower over the next decade because of financial constraints on developing countries, according to the International Wheat Council.

The rate of increase of consumption, especially for wheat, has slowed markedly since the early 1980s, the IWC says in its latest monthly report. Up until 1982, world wheat use was increasing by about 3.5 per cent a year, or about the same rate as in the 1950s and 1960s. Since then, it has averaged only 2.4 per cent a year.

Coarse grains consumption was growing at 2.1 per cent a year from 1975 to 1982, but has since increased by an average of only 1.3 per cent.

This evidence suggests that the reduced growth is not a statistical aberration, "but may reflect some important changes in the world grains economy."

In the past population growth, particulalry in developing countries, could usually be identified as the most important factor leading to increased grain usage. But in 1988 the world population is thought to have increased by more than 88m, or 1.8 per cent, 80m of the increase in developing countries. These rates are practically the same as for the late 1970s.

Slower growth in Latin America has been offset by increases for Africa and Near East Asia, while Far East Asia has seen hardly any slowdown in population growth.

Economic growth allows people to satisfy food preferences for wheat and meat, which requires grains for animal feed. Countries experiencing rapid growth – as in Far East Asia – have increased grain consumption. But those with debt problems have been obliged to restrain grain imports even at low prices, says the IWC.

This helps to explain reduced growth in coarse grain consumption for feed in North Africa and in wheat in sub-Saharan Africa, as well as the slowdown in Latin American countries.

Less indebted countries such as China and India have restrained their grain imports, however, in order to avoid the accumulation of debt.

The report concludes that financial and economic factors are likely to remain the chief influence on grain usage for many years to come. "In many parts of the world consumption may, indeed, barely keep ahead of population increases."

THE IWC has increased its estimate of 1990-91 world wheat production slightly from the level predicted in its June 5 report. It now puts the figure at 537m tonnes, up 4m tonnes from the June report and 30m more than estimated for 1989-90 output.

The wheat harvest forecast has been reduced to 564m tonnes from 565m tonnes in the June report but is still 28m tonnes above the 1989-90 estimate.

Brazilians thrive as Florida oranges feel chill

US Christmas frost came as a godsend to Sao Paulo's growers, writes **John Barham**

ON CHRISTMAS eve last year a bitter frost savaged Florida's orange groves. The sudden devastation of about a third of their crop was undoubtedly a severe setback for American orange growers. But for Brazil, the world's biggest citrus producer, it was a godsend.

Were it not for Florida's misfortune, the Brazilians would probably be facing a big drop in prices brought on by over-production. Instead, they are enjoying yet another year of firm prices and strong demand.

Mr Kenneth Geld, a director of French-owned commodity trader Louis Dreyfus, said the Florida frost "was an act of God that saved the prospects of the Brazilian producers. Without the frost, farmers would hardly be breaking even now. The frost has given Brazil a lead, because it will take Florida five years to get back to what it was before the frost. Meanwhile, Brazil is planting more trees."

Farmers in the state of Sao Paulo, which produces nearly all Brazil's oranges, are planting a record 20m trees this year. The state already has 109.4m adult trees. They are expected to yield between 200m and 240m boxes (40.8 kg each) of fruit this year. Before the frost, analysts forecast that farmers would be paid less than US$2 a box. Now, prices are averaging $3.50 a box – more than double the $1.50 production cost.

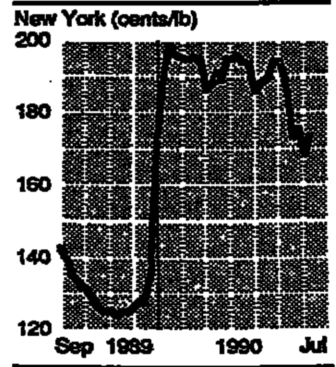
The remunerative prices are not only due to the Florida frost, however. Their production is going to be 19 to 32 per cent short of last year's unprecedented harvest of 295m boxes because orange trees are resting after that prodigious effort. Exports of frozen concentrated juice are therefore set to fall sharply from 730,000 tonnes last year, although revenues could rise by as much as 50 per cent to a record $1.5bn.

The providential frost has tightened the Brazilians' grip on the world orange juice market. Brazil now controls 90 per cent of the world's $1.7bn orange juice export market. In 20 years it has come to grow a fifth of the world's citrus and produces two fifths the orange juice. The US is the only other major producer. But because it consumes more juice than it can produce, it must rely on imports from Brazil to provide a third of its supplies in most years. This year, inevitably, it will have to import even more.

In Sao Paulo state seemingly endless rows of dark green-leaved orange trees grow in the rich, deep red soils that until the late 1960s were mainly devoted to coffee. In 1970, the state produced 46m boxes of oranges. Now it produces five times more. No other region in the world can rival the state's ideal combination of huge expanses of fertile soil and gentle climate.

Orange Juice

New York (cents/lb)



But some Brazilian farmers and orange juice processors fear the state's groves are growing faster than the world's thirst for orange juice. Sao Paulo has increased its total tree population by 41 per cent in just five years.

Mr Ademerval Garcia, president of one of Brazil's five citrus trade associations, warned that, barring acts of God, overproduction will force prices perilously close to the break even point. He says that export markets can only be expected to grow by 15 per cent over the next ten years, far less than the expected increase in output.

Mr Robert Wicks, agriculture attache at the US Embassy, commented that "the big producers will get even bigger and the smaller producers will tend to fade out because the big producers usually tend to be a bit more efficient and tend to have better yields."

However, Mr Roberto D'Andrea, who represents a rival association, commented that past predictions of impending disaster have always been proved wrong. Many in Brazil hope that the Asian and the Japanese market, which is being gradually opened to imports, will absorb the future rise in production.

The rapid growth in production has been entirely due to higher plantings. It is cheaper to expand groves than increase their productivity and yields have averaged 2.5 boxes per tree per year since 1980. But low operating and capital costs make Brazil's groves as profitable as Florida's, even though they are only half as productive.

Brazil owes its domination of the world juice market chiefly to two men: Messrs Karl Fischer and Jose Cutrale. Mr Fischer, who died in 1988, emigrated to Brazil from Germany and built up a citrus and shipping empire with help from German investors. The Fischer family runs the Citrosuco Paulista juice processing company. Mr Cutrale parlayed a stall at Sao Paulo's fruit and vegetable market into the giant juice processor that bears his name, thanks in large part to strong links with Coca Cola's Minute Maid subsidiary, said to be his biggest client. Today, Cutrale and Citrosuco process and export more than half Brazil's orange juice.

Farmers are naturally suspicious and resentful of the processors' power. Mr Osorio Nascimento, a prominent Sao Paulo orange grower, said "there are 22,000 farmers and half a dozen big processors. We are amateurs, they are professionals." At the moment, representatives of the processors and farmers are haggling over prices for the 1990-91 citrus year. The two sides are negotiating a complex mechanism of cash advances and payment of intermediary instalments linked to the New York price.

Although the market fundamentals – supply rising faster than demand – may indicate a future weakening in Brazil's position, the unexpected has always come to the rescue in the shape of frosts in the US, baking hot summers in Europe or tempting new markets in Asia and Eastern Europe. Nobody in Sao Paulo's orange country thinks their good luck is anywhere near running out.

Rubber organisation to cut price support level

THE INTERNATIONAL Natural Rubber Organisation (Inro) is cutting its buffer stock reference price by 5 per cent from the current 218.1 Malaysian/Singapore cents a kilogram, according to delegates to the council meeting that started yesterday, reports Reuters from Kuala Lumpur.

The reference price is the base on which calculations are made to determine if the Inro buffer stock manager should buy or sell stockpiled rubber.

"There is not much debate on the revision," a US delegate said. "There is a broad consensus by both producer and consumer members as stipulated by the Inro rules."

Inro began its three-day council meeting with discussions focussed on the organisation's buffer stock operations and the price revision.

The new reference price, which will be officially announced by the Inro secretariat at the end of the meeting, will probably be fixed at about 207.2 cents a kilogram, the delegates said.

Inro's "must-buy" level of 174 cents and "may-buy" level of 185 cents, as well as the "must-sell" and "may-sell" levels of 262 and 251 cents will be adjusted accordingly.

The producers, led by Malaysia, said the price cut would dampen world rubber prices.

"No doubt, I think the market price will go down further," said Mr Ahmad Farouk Ishak, head of the Malaysian delegation. "However, the revision is in accordance with the agreement and we have to honour that," he said. "I hope it will be a healthy trend when the whole world knows the agreement is working."

The price must be cut by 5 per cent if the average daily Inro market indicator price is below the "may-buy" level over the six months leading up to the review. The price must be reviewed every 15 months.

The council may, by special vote, decide on a bigger cut in the reference price. "But the fall has not been so sharp (as) to warrant a more than 5 per cent cut," a delegate said. The price averaged 182.92 cents in the last six months.

Consumer members countries had ruled out the possibility of asking for a bigger cut and would settle for the minium 5 per cent cut.

"The price level has to move in tandem with the current market trend," another Western delegate said. "We can't fight the market."

Sugar market 'stabilised by consumers'

THE SUGAR market is currently being stabilised by price-sensitive consumers in developing countries, removing the need for an economic pact, according to Mr Alfredo Ricart, executive director of the London-based International Sugar Organisation, reports Reuters.

"Clearly there is no direct role for us, for the present, in stabilising the market, partly because the market is, for the time being, performing the role in a perfectly adequate way," Mr Ricart says in a speech prepared for the World Sugar Farmers' Conference in Winnipeg.

Developing countries' demand falls as prices rise. But there is strong underlying demand from countries such as India and China if the price slips towards 10 cents. Developing countries account for 65 per cent of the free market, Mr Ricart adds.

"Price behaviour therefore is likely to follow a similar course to the one it would follow if an International Sugar Agreement was operating successfully," he says.

● World sugar prices have been on the slide this week and the London daily raws price was fixed yesterday morning at $296.90 a tonne, down $18.20.

Agreement expected on widening Brent oil supply

By David Thomas, Resources Editor

AN AGREEMENT is expected to be signed today (which will help to ensure the long term survival of the market in North Sea Brent oil, one of the world's most prominent benchmark crudes.

The agreement, which will come into effect next month, will eventually almost double supplies available in the Brent market by allowing oil from the Brent and Ninian fields to be mingled.

Negotiations on the agreement have involved more than 30 companies. They have been led by Shell, the operator of the Brent system, and British Petroleum, which operates the Ninian pipeline system and the Sullom Voe oil terminal in the Shetland Islands, where the two crudes are landed.

The agreement is expected to add about 20 cargoes a month to the 25 to 30 currently loaded from Brent alone, according to estimates published yesterday (in the Oil Market Listener newsletter.

The newsletter suggests that the combined Brent-Ninian flow will normally provide about 850,000 barrels a day (b/d) at Sullom Voe, although maintenance shutdowns will cut the average this year to about 670,000 b/d. Brent output is expected to fall sharply later in the year for maintenance reasons.

The agreement is likely to be viewed as important in maintaining confidence in the forward Brent market, which went through a troubled patch this year when a US court claimed jurisdiction over it.

It "will help ensure the longer term survival of the world's most actively traded forward oil market as well as ease potential short term supply problems this autumn," commented Oil Market Listener.

By increasing the supplies on the market, the agreement may make hedging easier and squeezes more difficult to achieve. It is likely to be welcomed for helping to preserve confidence in the market.

The new blend will be known as Brent Blend, not "Brinian" or even "Brian" as some traders had hoped.

● Oil prices rose yesterday in response to optimistic assessments of the prospects for an agreements at the next Opec ministerial session on July 25. The Brent price closed at $16.10 a barrel, up 50 cents.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,650-1,730 (1,640-1,710).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.30-2.90 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 2.85-3.10 (2.85-3.00).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 8.10-8.40 (8.00-8.30).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 195-225 (200-225).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.97-3.0 (33.03-3.08).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.85-5.50).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO, cif, 40-54 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb VO, cif, 3.05-3.30 (2.95-3.20).

URANIUM: Nuexco exchange value, $ per lb, UO, 11.60 (9.25).

LME WAREHOUSE STOCKS (As at Monday's close) tonnes

Aluminium	−1,500	to 173,000
Copper	−2,325	to 51,225
Lead	+175	to 42,825
Nickel	+132	to 9,144
Zinc	−2,200	to 38,925
Tin	−290	to 12,175

WORLD COMMODITIES PRICES

MARKET REPORT

LIGHT SELLING in a thin market helped to push cocoa prices lower at the London Futurues and Options Exchange (Fox) yesterday, but the main weight of downward pressure came from falls on the New York Commodity Exchange (Comex). "I think it's a continuation of yesterday's easier tone over there," commented on London dealer. At Fox futures prices were marked down early, reflecting Monday night's Comex fall, and by the close the September position had fallen £33 to £762 a tonne. New York traders blamed the fall there mainly on techninical selling. "We hit a bunch of sell stops under last week's low ($1,260 a tonne) in the September (futures position) and never realyy bounced back," said one. After an early rise the London Metal Exchange the copper market retreated to its support level at just over $2,600 a tonne under pressure from profit-taking and stale-bull liquidation. Moday's £17 rise in the cash price was wiped out by a £24 fall to £1,527 a tonne, while the three months price slipped £12.50 to £1,465.50 a tonne. The early rise had been encouraged by a fall in LME copper stocks to the lowest level since May 1988.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$13.70-3.80w	+.405
Brent Blend	$16.05-6.15w	+.50
W.T.I. (1 pm est)	$17.00-7.03w	+.765
Oil products (NWE prompt delivery per tonne CIF)		**+ or -**
Premium Gasoline	$227-229	
Gas Oil	$147-148	+2
Heavy Fuel Oil	$68-70	+2
Naphtha	$146-148	+4
Petroleum Argus Estimates		
Other		**+ or -**
Gold (per troy oz)♣	$354.25	-4.25
Silver (per troy oz)♣	483c	-5.00
Platinum (per troy oz)	$478.50	-8.50
Palladium (per troy oz)	$116.25	-0.75
Aluminium (free market)	$1550	-5.00
Copper (US Producer)	123.75c	+0.75
Lead (US Producer)	50.00c	+0.75
Nickel (free market)	410c	+10.0
Tin (Kuala Lumpur market)	15.70r	-0.08
Tin (New York)	275c	
Zinc (US Prime Western)	87.5c	
Cattle (live weight)†	107.12p	*
Sheep (dead weight)†	160.39p	*
Pigs (live weight)†	97.37p	*
London daily sugar (raw)	$296.9t	-18.2
London daily sugar (white)	$376.8t	-17.2
Tate and Lyle export price	£274.5	-11.5
Barley (English feed)	£108	
Maize (US No. 3 yellow)	£156.75	-0.25
Wheat (US Dark Northern)	Unq.	
Rubber (Aug)♥	52.00p	-0.25
Rubber (Sep)♥	52.50p	-0.25
Rubber (KL RSS No 1 Jul)	232m	
Coconut oil (Philippines)§	$315z	
Palm Oil (Malaysian)§	$280.0	-2.50
Copra (Philippines)§	$212.5w	
Soyabeans (US)	£152t	-2.00
Cotton "A" index	91.10c	-1.00
Wooltops (64s Super)	477p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Jul. t-Jul/Aug. u-Oct/Dec v-Jun/Jul. w-Aug z-Aug/Sep y-Sep. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Aug	276.40	271.60	276.00 267.60
Oct	272.40	263.80	272.00 260.60
Dec	270.00	260.00	270.00 255.00
Mar	260.00	253.80	260.00 251.00
May	260.00	254.00	255.40 251.00
Aug	261.00	254.80	258.80 252.60
White	**Close**	**Previous**	**High/Low**
Aug	386.0	373.0	385.0 370.7
Oct	345.5	337.0	343.0 334.5
Dec	339.5	332.5	332.5 330.0
Mar	337.0	330.5	336.0 327.0
May	335.0	329.0	334.0 326.0
Aug	336.0	329.0	330.5

Turnover: Raw 5886 (5473)lots of 50 tonnes. White 2145 (1747)
Paris- White (FFr per tonne): Aug 2055, Oct 1870 Dec 1865, Mar 1865, May 1865

CRUDE OIL – IPE ($/barrel)

	Latest	Previous	High/Low
Aug	16.08	15.90	16.15 15.86
Sep	16.53	16.35	16.60 16.30
Oct	16.94	16.58	16.94 16.71
Nov	17.09	16.83	17.10 17.09
IPE Index	15.66	15.96	

Turnover: 11001 (13480)

GAS OIL – IPE ($/tonne)

	Latest	Previous	High/Low
Jul	148.00	148.00	148.00 145.25
Aug	147.50	146.75	147.50 145.50
Sep	149.00	147.50	149.25 146.75
Oct	152.00	149.75	152.00 148.75
Nov	153.25	151.75	154.00 152.00
Dec	155.50	154.50	156.00 154.50
Jan	158.00	154.50	158.50 155.00

Turnover 7586 (8743)lots of 100 tonnes

COTTON
Spot and shipment sales for the week ended 6 July amounted to 1541 tonnes against 855 tonnes in the previous week. Trading remained on the low side and only a few dealings occured and these were mainly in American, West African and Chinese growths.
JUTE
August/September c and f Dundee BTC $540, BWC $540, BTD $510, BWD $510; c and f Antwerp BTC $520, BWC $520, BTD $490, BWD $480.

COCOA – London FOX (£/tonne)

	Close	Previous	High/Low
Jul	739	772	767 752
Sep	762	795	790 760
Dec	785	821	815 783
Mar	812	844	840 812
May	832	864	858 831
Jul	852	884	880 853
Sep	872	904	898 870

Turnover: 5443 (3113) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jul 9 1032.54 (1033.56) 10 day average for Jul 10 1016.11 (1009.56)

COFFEE – London FOX (£/tonne)

	Close	Previous	High/Low
Jul	548	543	548 535
Sep	572	569	573 562
Nov	593	591	593 585
Jan	612	611	613 605
Mar	630	628	632 623
May	649	644	651 641

turnover: 2530 (3017) lots of 5 tonnes
ICO indicator prices (US cents per pound) for July 9: Comp. daily 67.75 (68.37). 15 day average 68.12 (68.23)

POTATOES – BFE (£/tonne)

	Close	Previous	High/Low
Nov	186.0	185.0	183.5 183.5
Apr	117.5	116.9	118.2 114.0
May	129.0	129.0	128.5 125.5

Turnover 227 (359) lots of 40 tonnes.

SOYABEAN MEAL – BFE (£/tonne)

	Close	Previous	High/Low
Oct	114.50	115.00	115.00 114.50
Dec	121.50		121.50 121.50

Turnover 77 (25) lots of 20 tonnes.

FREIGHT FUTURES – BFE ($10/index point)

	Close	Previous	High/Low
Jul	1050	1055	1055
Aug	1045	1050	1050
Oct	1148	1148	1149 1144
Jan	1160	1162	1161 1160
Apr	1155	1160	1165
BFI	1069	1068	

Turnover 140 (208)

GRAINS – BFE (£/tonne)

Wheat	Close	Previous	High/Low
Sep	112.30	112.80	112.40
Nov	115.70	115.90	115.70 115.50
Jan	119.55		119.60 119.50
Mar	123.35	123.75	123.40
May	126.55	126.90	126.60 126.55
Barley	**Close**	**Previous**	**High/Low**
Sep	110.15	110.30	110.20 110.00
Nov	114.25	114.40	114.25 114.00
Jan	117.45	114.40	117.45
May	122.05	114.40	122.05

Turnover: Wheat 167 (73), Barley 88 (5). Turnover lots of 100 tonnes.

PIGS – BFE (Cash Settlement) p/kg

	Close	Previous	High/Low
Aug	120.5		120.5 120.0
Sep	117.5	116.5	117.5 116.5
Oct	119.6	117.5	120.0 119.5

Turnover 66 (12) lots of 3,250 k

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 7,961 lots	
Cash	1550-2	1549-52	1550/1549	1549-50		
3 months	1580-1	1578-80	1588/1578	1579-80	1576-7	44,665 lots
Copper, Grade A (£ per tonne)					Total daily turnover 21,600 lots	
Cash	1528-8	1550-2	1548/1547	1546-7		
3 months	1465-6	1478-80	1477/1456	1477-8	1456-7	71,236 lots
Lead (£ per tonne)					Total daily turnover 1,925 lots	
Cash	502-4	510-2	505/504	505-6		
3 months	504.5-5	511-2	514/502	508-8.5	508-4	10,702 lots
Nickel ($ per tonne)					Total daily turnover 1,290 lots	
Cash	8800-900	8700-20	8810	8800-20		
3 months	8900-10	8725-50	8925/8750	8825-50	8880-900	8,909 lots
Tin ($ per tonne)					Total daily turnover 1,106 lots	
Cash	6010-20	6875-85	5950/5945	5950-5		
3 months	6125-30	6005-10	6140/6000	6060-70	6135-50	5,075 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 5,366 lots	
Cash	1770-5	1777-82	1788/1784	1784-6		
3 months	1680-2	1685-7	1703/1677	1687-8	1675-7	19,444 lots

LME Closing £/$ rate: SPOT: 1.8140 3 months: 1.7855 6 months: 1.7581 9 months: 1.7395

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	353¼-354¼	195-195½
Opening	357¼-357¾	196-195½
Morning fix	357.55	196.402
Afternoon fix	354.00	194.645
Day's high	358-358½	
Day's low	352-352½	
Coins	**$ price**	**£ equivalent**
Mapleleaf	360-365	198½-201½
Britannia	360-365	198½-201½
US Eagle	360-365	198½-201½
Angel	360-365	198½-201½
Krugerrand	353-356	194½-196½
New Sov.	85-87	47-48½
Old Sov.	85-87	47-48½
Noble Plat	484.20-491.90	268.40-271.40
Silver fix	**p/fine oz**	**US cts equiv**
Spot	264.10	480.00
3 months	273.85	489.95
6 months	283.85	500.45
12 months	302.65	521.35

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Sep	Nov	Sep	Nov
1500	67	107	12	23
1600	29	50	52	63
1700	6	19	128	129
Copper (Grade A)	**Calls**		**Puts**	
2500	207	137	29	85
2650	139	80	80	135
2750	87	56	105	186
Coffee	**Sep**	**Nov**	**Sep**	**Nov**
450	122	146		9
500	75	102	3	24
550	37	67	15	47
Cocoa	**Sep**	**Dec**	**Sep**	**Dec**
750	40	80	29	45
800	20	56	59	71
850	9	40	98	105
Brent Crude	**Aug**	**Sep**	**Aug**	**Sep**
1550	50		1	30
1600	15			32
1650		55		

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Aug	16.96	16.68	17.08	16.70
Sep	17.70	17.37	17.80	17.50
Oct	18.20	17.90	18.27	18.01
Nov	18.58	18.29	18.65	18.38
Dec	18.85	18.56	18.91	18.67
Jan	19.04	18.77	19.06	18.80
Feb	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INDICES

REUTERS (Base: September 18 1931 = 100)

Jul 10	Jul 9	mnth ago	yr ago
[illegible]	[illegible]	[illegible]	[illegible]

DOW JONES (Base: Dec. 31 1974 = 100)

	Jul 9	Jul 6	mnth ago	yr ago
Spot	[illegible]	[illegible]	[illegible]	[illegible]
Futures	[illegible]	[illegible]	[illegible]	[illegible]

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jul	615/6	616/4	618/6	614/0
Aug	620/4	620/6	624/0	618/4
Sep	627/4	626/6	631/0	626/0
Nov	641/4	641/4	645/0	639/0
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON STOCK EXCHANGE

Sterling's strength hits the market

ANOTHER gain by sterling, coupled with a further denial from the UK Chancellor of the Exchequer at the Houston summit of any plans for an early cut in domestic interest rates, left the London equity market yesterday to the mercy of the steady flow of corporate profits downgradings from the brokerage houses.

The market suffered further losses as a number of high-grade names, including Trusthouse Forte, BP, Shell, and Tarmac, ran into adverse comments from analysts of the respective market sectors. Trading volumes increased, and fewer bright spots showed up against the gloom.

Account Dealing Dates			
First Dealings:	Jun 25	Jul 9	Jul 23
Option Declarations:	Jul 5	Jul 19	Aug 2
Last Dealings:	Jul 6	Jul 20	Aug 3
Account Day:	Jul 16	Jul 30	Aug 13

*New-time dealings may take place from 8.30 am two business days earlier.

The firm rejection by Mr John Major, the UK Chancellor, of speculation that cuts in UK base rates were planned discouraged equities from the opening. The international stocks then had to face a pound which crept closer to DM 3.00 before closing off the top, although still with a further gain on the day.

But the stage was set in the first half hour, when the Seaq trading screens showed substantially lengthened lists of downward revisions of corporate profit forecasts from a number of leading securities houses. At its low point, the equity market was more than 14 FT-SE points off. A very modest rally was reversed when Wall Street came in lower, falling 10.15 Dow points in London trading hours. Firmness in British Government bonds, reflecting the Chancellor's determined stance on domestic inflation, gave little help to equities.

The FT-SE Index ended 10 points lower on the day at 2,327.5, the first close below the 2,330 support level since the end of May. Seaq volume increased to 442m shares from Monday's 387.3m reflecting selective turnover, with sellers concentrating on stocks featured in profits downgradings.

Statistics from the International Stock Exchange show that customer interest rose sharply at the end of last week, but the figures were boosted by a handful of special situations, notably the culmination of the British Coal Pensions Fund acquisition of Globe Investment Trust.

Domestic stocks continued to attract lower ratings from City analysts, with building and construction shares again downgraded on the basis of their exposure to high interest rates and the slump in the property business. But the new focus on international stocks, where vulnerability to adverse currency factors surfaced last week when RTZ was downgraded by several UK securities houses, also took its toll.

Attention is also focused on the end of this week, when the markets face a barrage of inflation data from leading industrial countries, including the latest UK Retail Price Index. City forecasts are for a further, albeit modest, rise in Britain's underlying inflation rate.

Shell, BP out of favour

RECENT FEARS of new profits downgrades among the oil majors proved well-founded when Smith New Court cut £200m from its current year forecast for BP and £175m from its Shell number. Smith said its estimates were around the market's lowest. Smith reduced its Shell dividend forecast to 19.9p.

Mr Nick Clayton at Smith said he cut his forecast for BP from £1.3bn to £1.1bn and that for Shell from £3.525bn to £3.35bn. "Fundamentals for the sector have deteriorated – the downgrades were inevitable," said Mr Clayton.

The Smith team also cut the forecast of average crude prices for 1990 from $18.50 to $18 a barrel, towards the bottom end of market expectations.

A number of brokers have recently downgraded dividend estimates for Shell, notably BZW and Kleinwort Benson. BP closed a net 4 off at 317p with turnover reaching 7.2m, while Shell gave up a similar amount to 445p on much thinner trade of 1.9m shares.

Granada nerves

A bout of nervous trading in Granada, ahead of the company's interims today, knocked 20 off the shares at one point. They made only a slight recovery by the close.

Marketmakers' determination not to take big positions in the stock was triggered by a sell recommendation from Kleinwort Benson. The securities house forecast a loss of £330m in 1990 from BSB, the satellite television company. Granada's stake in BSB represents 35 per cent of shareholders' funds, "proportionately far more than the other two major UK shareholders [in BSB], Reed and Pearson."

Kleinwort forecast £62m profit from Granada at today's interims, compared with £71.6m last year and a forecast of £63m from BZW. Granada closed at 231p, down 18 on the day in solid turnover of 1.4m.

Kleinwort's doubts about the ability of the deregulation of the television industry to deliver profits also led it to recommend that clients sell Carlton Communications, down 5 to 513p.

Cement stocks fall

The building sectors suffered from yet more profits downgradings and a generally negative sentiment. Analysts put the cement manufacturers in the firing line amid growing fears about price cutting.

Smith New Court's building sectors analyst Mr Kevin Cammack cut his forecasts for BCI and Rugby on Monday, citing a tussle over market share between the two groups. BCI is thought to have lost volume to Rugby's Castle cement during the first quarter of the year and to have led prices down in an effort to win back market share.

"Cement prices have been eroded and this will obviously hit profits," said Mr Cammack. For the current year the Smith analyst has lowered his expectation for BCI from £215m to £199m; for Rugby he has gone down from £90m to £78m.

At UBS Phillips & Drew, Mr Howard Seymour reduced his estimates for the same reason – "increased competitive pressures" – and said that price would be the key to this year's profit picture.

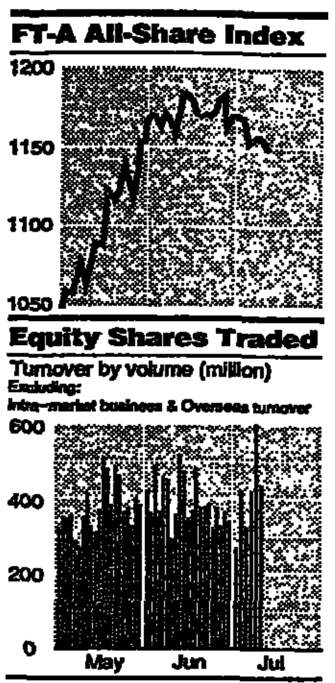
Mr Seymour has cut his current year estimate for BCI from £218m to £215m, and for next year, "when BCI will feel real hardship," from £239m to £223m. For Rugby he reduced the current year estimate from £90m to £84m, and for next year from £94m to £83m. He expects BCI "to lose out the most." BCI shares fell to 235p, before picking up on vague takeover hopes to close a fraction higher at 238p but Rugby dipped 4 to 174p.

British Airways continued to benefit from the record quarterly passenger traffic figures announced on Monday. The shares added 2 at 215p. Traders reported buying from UK institutions. Turnover was a good 3.3m shares.

A late trade of 3.4m British Steel shares, said to have been a purchase by one UK-owned securities house, more than undid the day's previously firm performance. The shares closed at the day's low of 137¼p, a net decline of 1¼.

Marketmakers said that a stream of selling orders from ICI employees who had exercised share options was behind the stock's fall of 8 to 1140p.

A profit downgrading from Panmure Gordon was behind the weakness of Trusthouse Forte. The shares fell 10 to 290p. Panmure's new figure for the current year was £245m, instead of its previous forecast of £272m. Panmure's move followed downgrading from other analysts including Mr Roy Owens at Smith New Court. He remained cautious on the stock, even after yesterday's fall and confident in his forecast of £265m.



Tottenham Hotspur continued to benefit from increased valuations placed on two of its soccer players in the wake of the World Cup tournament. The shares added another 3 at 121p, making a two-day rise of 13.

Dixons had a good day ahead of full-year results today. Mr Nick Bubb at Morgan Stanley was recommending the stock yesterday because "people *underestimate how far Dixons can improve its margins*." His forecast for today's figure was £70-75m, a little above other predictions.

The prospect of a yield of more than 13 per cent contributed to Burton's bounce. The shares have suffered more than a week of sharp declines in the wake of a profits warning from the company. Burton peaked at £1 yesterday and closed at 99p, an improvement on the day of 3.

Empire Stores managed to recover 5 to 90p in the wake of results that were not as bad than analysts had feared. The company stayed in profit, making £172,000 compared with £8.1m. The two-day share price fall was 5p.

Hillsdown eased 4 to 275p with some traders talking of a line of 1m shares overhanging the market. Another theory was that Wickes, the timber merchant and do-it-yourself retailer, had run into difficulties. Hillsdown has 20 per cent of Wickes, whose shares lost 4 to 180p.

Sainsbury fell as Argyll advanced with early trades moving in tandem. Dealers concluded that an investor was switching between the two stocks. *Several traders* suggested that, contrary to appearances, the switch was not from Sainsbury into Argyll. "Just because the clients did it, it didn't mean that the price went the clients' way afterwards," said one dealer, who added he thought the buyer and seller were "willing participants to the trade."

USM-quoted ink maker, Gibbon Lyons, reported a 47 per cent rise in full-year profit to £1.49m. The chairman said the group would continue to prosper in the coming year. The shares added 10 at 118p.

Trafalgar House continued to suffer, in spite of the midmorning removal of a line of 2m shares that had been overhanging the market. The market remained wary, believing that the buyer, presumed to be a marketmaker, could be awaiting an opportunity to offload the stock. The shares, beleaguered recently by downgradings from several broking houses, closed 15 down at 288p.

Wolseley, *the* engineering to building materials group, also wilted. A trader attributed the weakness in the shares, 12 off at 312p, to the strength of sterling. He said the company was exposed to currency factors with 40 per cent of its earnings last year coming from the US.

The latest twist in the Molins/Leucadia situation took the former's shares up 12 to 291p. Molins has agreed to convene the emergency general meeting demanded by Leucadia at which the latter will seek to remove three directors and appoint six of its own nominees. Earlier this year Leucadia *bid unsuccessfully for* Molins and currently owns 46.6 per cent of the share capital.

Hawker Siddeley recovered 10 to 615p as the remainder of a selling order of the previous day was completed. A confident statement on trading prospects, coupled with news of a near-30 per cent rise in *annual profits, took Howden* Group 7 higher to 155p.

Profit statements brought contrasting fortunes to Braithwaite, 10 off at 187p, and Kingsgrange, 3 harder at 32p, while Atkins Brothers shot to 200p before closing 21 up at 178p on news of discussions that might lead to an offer being made for the company.

The GEC lunch hosted by Henderson Crosthwaite, which included a number of institutions, was said to have gone well, with the emphasis said to have been put on the company's conservative accounting policies. "GEC is strongly cash generative which should offset the market's worries on defence," said Mr Brian Newman at Henderson. GEC held at 190p with turnover expanding during the afternoon to reach 3.6m.

Kleinwort Benson's major note on the "New Media" highlighted the broker's positive stance on Cable and Wireless (C&W) and helped the stock move up 6 to 530p on very good turnover of 5m. County NatWest lowered its profits expectations for C&W to take in the appreciation of sterling against the dollar. County said its 1990-91 is now £/$1.73 and for 1991-92 £/$1.80, changes of 7 per cent and 12 per cent respectively. The broker reduced its 1990-91 forecast by £15m, from £730m to £705m, and that for 1991-92 from £830m to £798m. Referring to the placing last week of Mr Li Ka Shing's 4.82 per cent stake in C&W, County's Mr Patrick Wellington said this "will suppress short-term appetite for the shares."

The BZW sell note left Racal Telecom 6 off at 357p. STC rallied from an early 257p to close only a fraction off at 260p after news of the joint venture in printed circuit boards between ICL and Sun Microsystems. There were also vague suggestions in the market that a long-awaited and much bigger deal regarding ICL and a potential stake builder could soon occur. It was also suggested that STC could well attract the attention of a predator keen to take on the whole of the company.

The rash of downgradings in the building sector reached epidemic proportions. Tarmac suffered more than most after BZW cut its forecast for this year from £300m to £290m and that for next year from £350m to £315m. Smith New Court went further and cut from £310m to 270m, while a leading Midland-based broker was said to have gone down to £275m. Tarmac fell 4 to 242p with turnover picking up strongly and reaching 5m shares.

There were also said to have been forecast reductions in Redland, which closed 7 down at 597p, RMC at 673p, and Pilkington which gave up 2 to 199p.

The currency factor began to bite at Hammerson Property, which has 60 per cent of its net assets *overseas*. Analysts said a continuation of the strong rise in sterling would have a negative impact on the translation of foreign currencies and could affect net asset value at the year end. The stock is vulnerable because of its premium rating and the depressed nature of the property market internationally, they argued. The company's "A" shares ended 4 easier at 703p with volume the highest for 18 months at 1.1m shares.

Evans of Leeds responded to a positive trading statement, which included higher profits, a proposed scripo issue and a property revaluation, by rising 5 to 265p. Christie Group was less fortunate, losing 4 to 67p on sharply lower annual earnings. Renewed speculative interest swept Priest Marians 7 higher to 210p and Speyhawk 6 firmer to 234p but lowered Broadwell Land 8 to 55p. USM-listed Property Company also benefited from speculation of an imminent development and rose 18 to 127p.

London Forfaiting (LF) welcomed news that the British & Commonwealth holding of 40m shares in the company had been placed with institutional investors at 70p a share. At the close of the market LF shares were 5 to the good at 78p.

Confirmation that IEP Securities had sold its 10.3 per cent holding in Caledonia Investment left the shares 11 cheaper at 366p. Cazenvoe and Company placed the 9.7m shares at 365p special cum dividend with various institutions, although Caledonia bought 1.6m of the total ex the dividend payment.

■ Other Market statistics, including the FT-Actuaries share index, Page 22

FINANCIAL TIMES STOCK INDICES

	July 10	July 9	July 6	July 5	July 4	Year Ago	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs	78.76	78.40	78.63	79.03	79.34	85.90	84.20 (2/1)	74.13 (30/4)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	87.21	87.24	87.80	88.02	88.06	96.82	92.91 (8/1)	83.80 (30/4)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1855.0	1858.3	1865.0	1858.2	1881.1	1850.3	1968.3 (3/1)	1683.8 (30/4)	2005.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	173.9	179.3	180.9	181.4	183.4	204.7	378.5 (8/2)	157.9 (15/6)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2327.5	2337.5	2340.0	2331.4	2355.5	2250.9	2463.7 (3/1)	2103.4 (30/4)	2463.7 (3/1/90)	986.9 (23/7/84)
Ord. Div. Yield	5.00	4.99	4.97	4.99	4.93	4.36				
Earning Yld %(full)	11.07	11.04	11.00	10.99	10.87	10.22				
P/E Ratio(Net)(*)	10.96	10.98	11.02	11.03	11.15	11.79				
SEAQ Bargains 4.45pm	22,686	23,130	26,021	22,818	21,517	33,733				
Equity Turnover(£m)†	-	818.03	1797.39	1054.15	717.44	2099.17				
Equity Bargains†	-	25,555	29,003	22,582	22,324	37,800				
Shares Traded (mil)†	-	433.8	601.5	416.9	322.4	632.6				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55, Basis 1000 FT-SE 100 31/12/83. ⊕ Nil 10.53

Ordinary Share Index, Hourly changes — Day's High 1857.7 — Day's Low 1848.1

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1854.5	1848.6	1849.9	1853.4	1854.1	1855.6	1856.3	1857.0	1857.2

FT-SE, Hourly changes — Day's High 2333.2 — Day's Low 2323.1

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2333.2	2324.7	2324.8	2326.2	2328.0	2328.6	2331.0	2331.1	2330.0

GILT EDGED ACTIVITY

Indices*	July 9	July 6
Gilt Edged Bargains	93.4	98.3
5–Day average	91.7	91.5

*SE Activity 1974. †Excluding intra-market business & Overseas turnover.

London report and latest Share index: Tel. 0898 123001.

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change
[illegible]			
British Land	4	320	-1
BP	7,200	317	-4
British Steel	7,700	137¼	-1½
British Telecom	3,200	307	+½
Bunzl	598	90	-1
Burmah Oil	376	631	-9
Burton	4,500	99	+3
Cable & Wire.	5,000	530	+6
Cadburys	1,200	355	-6
Calor Group	34	254	+2
Carlton Comms.	1,200	513	-5
Coats Viyella	144	122½	-1½
Comm. Union	364	504	
Cookson	676	200	+2
[illegible]			
ICI	1,500	1140	-8
Inchcape	678	270	
Kingfisher	493	344	+2
Ladbroke	639	318	-2
Land Securities	522	519	-2
Laporte	729	553	-8
Legal & General	1,400	411	-3
Lloyds Abbey	191	323	-2
Lloyds Bank	2,300	302	-2
LASMO	851	393	-9
Lonrho	958	263	-1
Lucas	2,800	162	+2
MB Group	4,600	209	
[illegible]			
Reuters	140	1258	-2
Rolls Royce	3,000	225	
Rothmans	220	800	+15
Ryl Bk Scotland	214	187	-1
Royal Insurance	333	401	-2
STC	1,200	260	-1
Saatchi	304	82	-2
Sainsbury	2,700	284	-3
Scottish & New.	173	339	-2
Sears	944	98	+1
Sedgwick	607	285	-5
Severn Trent Water	593	142	+1
Shell Transport	1,900	445	-4
Siebe	1,208	495	
[illegible]			
Unilever	960	676	-6
United Biscuits	541	385	-2
Utd. Newspapers	753	334	
Water Package Uts.	3	£1580	-3
Wellcome	198	595	-1
Welsh Water	758	170	-1
Wessex Water	181	161	-1
Whitbread 'A'	214	447	-3
Williams Hldgs.	120	278	+2
Willis Faber	380	235	-3
Wimpey	116	241	
Yorkshire Water	784	165	+3

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

NEW HIGHS AND LOWS FOR 1990

NEW HIGHS (27). AMERICANS (1) BUILDINGS (1) STORES (1) ELECTRICALS (2) ENGINEERING (3) FOODS (3) INDUSTRIALS (5) CRT, Capero Inds., Hutchison Whampoa, Relyon, Sanders & Sidney, Stanley & McGraw, TT. NEWSPAPERS (1) PROPERTY (2) TEXTILES (2) TOBACCOS (1) TRUSTS (3). NEW LOWS (118). AMERICANS (12) CANADIANS (3) BANKS (4) BUILDINGS (4) CHEMICALS (4) STORES (4) ELECTRICALS (9) ENGINEERING (8) FOODS (6) INDUSTRIALS (9) BSG Intl, British Fittings, Cannon Street Invs., Dyson (J & J), Ebors Gt., Hawthorn Leslie, Lincoln House, Scottish Heritable Trust. INSURANCE (4) MOTORS (2) PAPERS (4) PROPERTY (7) SOUTH AFRICANS (2) TEXTILES (3) TRANSPORT (4) TRUSTS (11) OILS (5) PLANTATIONS (2) MINES (21)

APPOINTMENTS

Girobank's new board

Following its acquisition by the Alliance & Leicester Building Society (ALBS), the following have been appointed to the board of GIROBANK: Mr A. Scott Durward, chairman (group chief executive, ALBS); Mr Fred W. Crawley, deputy chairman (director ALBS, former deputy chief executive Lloyds Bank); Mr E. John Baden, managing director and chief executive (he was Girobank chief executive); Mr T. Innes Hardie, deputy managing director (general manager, development, ALBS); Mr John Baker (ALBS), Mr Paul Clifton (ALBS), Mr Niall Crowley (ALBS), Mr Ian Hamilton (ALBS), Mr David Legg (Girobank), Mr Barry Moult (Girobank), and Mr Peter White (ALBS) become directors.

■ MORLAND & CO, Abingdon, Oxfordshire, has appointed Mr Peter Furness-Smith, general manager, retail division, to the board as retail director.

■ BRINTONS, Kidderminster, has appointed Mr Simon Douglas-Pennant as director and general sales manager.

■ Mrs Moira T. McMillan has been appointed director of the PAINTMAKERS ASSOCIATION OF GREAT BRITAIN. She was manager of corporate development and head of international trade with the UK Chemical Industries Association.

■ Mr Barrie Newton, former director and head of research of stockbroker Stock Beech, with colleagues Mr Mark Sevier, Mr Andrew Morris and Mr Ralph Singleton, has joined DARTINGTON & CO, a Bristol merchant banking group, to establish an institutional agency stockbroking operation.

■ Mr Rohan Courtney, general manager, London, of the State Bank of New South Wales, has been elected chairman of THE BRITISH OVERSEAS AND COMMONWEALTH BANKS ASSOCIATION.

■ HILL SAMUEL BANK has appointed Mr Stephen Aulsebrook as a director, corporate finance department. He was a managing director in Bankers Trust's mergers and acquisitions department.

■ Mr Michael Lee has been appointed corporate development director, BARBOUR INDEX.

■ SCHAL INTERNATIONAL has appointed Mr Stuart Laird as director of operations, succeeding Mr David Evans, now managing director.

■ J.P. DONELON & CO has appointed Mr Mark Turner as divisional director, tunnelling and microtunnelling. He was contracts manager.

■ ADWEST GROUP subsidiary Mawdsley has appointed Mr Glenn Webb as managing director and Mr Peter Foster as finance director.

■ Mr Kevin Hassett has been appointed director, temperature controlled division, HARRIS DISTRIBUTION.

■ GT MANAGEMENT has appointed Mr Philip Douglas to the board.

■ Mr Nicholas F.C. Barber, chief executive, Ocean Group, has been appointed a non-executive director of COSTAIN GROUP.

■ Mr Neil Stevenson has been appointed a director of LEEDS GROUP. He is managing director of Langholm Dyeing Co which was acquired by Leeds Group in January.

■ STANDARD CHARTERED has appointed Mr Erick Nastund as head of credit services, group risk management. He was with Barclays Bank.

■ TIPHOOK has appointed as a non-executive director Mr Martin Kohlhaussen, a managing director of Commerzbank, West Germany.

■ Mr Jeffrey F. Ruzicka has been appointed managing director of STATE STREET LONDON, and head of the European global custody division of State Street Bank and Trust Co. He was senior vice president and head of international financial services, including global custody, for the Northern Trust Co, based at the bank's headquarters in Chicago.

■ CARLISLE GROUP has appointed Mr Roger Cort as a non-executive director of subsidiary Equity and Financial Services, its corporate and stockbroking division. He was head of corporate finance at Henry Ansbacher.

■ LANCASTER, Colchester, a motor trade group, has appointed Mr Patrick Grinnell as group finance director. He was group operations director.

Mr Robin Richmond *(pictured)* has been appointed group company secretary of TRIPLEX LLOYD. He was with Arlington Securities, part of British Aerospace.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1990 High	1990 Low	Stock	Price £	+ or –	Yield Int.	Yield Red.
99⅞	97⅛	Treas. 8pc Cv 1990‡‡	99⅝	.....	8.03	–
98⅜	96⅜	Treas. 10pcCv 1990	98⅜	.....	10.14	14.14
96½	93⅛	Exch 2½pc 1990	96½	.....	2.58	11.30
98½	97⅛	Treas 11¾pc 1991	98½	.....	11.91	14.39
95⅞	92⅞	Funding 5¾pc '87-91‡‡	95⅞	.....	6.02	12.41
93⅜	89¾	Treas. 3pc 1991	93⅜	.....	3.21	11.00
97⅞	94⅜	Treas 10pc Cv '91‡‡	97⅛xd	.....	10.31	13.23
97⅞	94⅜	Exch. 11pc 1991	97⅛	.....	11.34	13.51
93⅜	90⅛	Treas. 8pc 1991	93⅜	.....	8.57	13.26
101⅛	97⅜	Treas 12¼pc 1992‡‡	99⅜xd	.....	12.83	13.12
96	92¾	Treas 10pc 1992	95⅜	.....	10.48	13.23
92⅜	89¼	Treas. 8pc 1992‡‡	92⅜	.....	8.66	13.01
97⅞	93⅛	Treas 10½pc Cv 1992‡‡	95⅞	.....	10.95	13.03
87⅜	82⅜	Treas. 3pc 1992	86⅞	+⅛	3.45	[illegible]
100⅜	95⅜	Exch. 12¼pc '92	98⅜	.....	12.48	[illegible]
104	98⅞	Exch 13½pc 1992	100⅝	.....	13.38	[illegible]
91½	86¼	Treas 8¼pc 1993	90⅛	.....	9.11	[illegible]
96⅞	90⅜	Treas 10pc 1993‡‡	93⅞	.....	10.64	[illegible]
103⅞	96⅞	Treas 12½pc 1993‡‡	99⅞xd	.....	12.51	[illegible]
86⅞	82	Funding 6pc 1993‡‡	85½	.....	7.02	[illegible]
107⅜	99¼	Treas 13¾pc 1993‡‡	103⅜	+⅛	13.29	[illegible]
91	84¼	Treas. 8½pc 1994	88⅜xd	.....	9.57	[illegible]
111⅛	102⅞	Treas 14½pc 1994‡‡	106⅛	+⅛	13.65	[illegible]
107⅞	99¼	Exch 13½pc 1994	103⅛	+⅛	13.09	[illegible]
96⅜	88⅜	Treas. 10pc Ln. 1994‡‡	93⅛	.....	10.75	[illegible]
104½	96⅞	Exch. 12¼pc 1994	100⅛	+⅛	12.46	[illegible]
92½	85	Treas 9pc 1994‡‡	89⅜	.....	10.09	[illegible]

BRITISH FUNDS—Contd

Index–Linked

1990 High	1990 Low	Stock (b)	Price £	+ or –	Yield (1)	Yield (2)
117⅛	110¼	Tr. 2pc '92‡‡(97.8)	117⅛	+⅛	4.80	6.32
108⅜	103¾	Do. 2 '94(102.9)	108⅛	+⅛	4.09	4.75
159⅜	150⅝	Do. 2pc '96(67.9)	159	+⅛	3.83	4.26
131⅛	123½	Do 2½pc '01(78.3)	129⅛	+⅛	4.26	4.53
128⅝	119⅞	Do. 2½pc '03(78.8)	125⅜	+⅛	4.28	4.51
131⅜	122	Do. 2pc '06(69.5)	127⅜xd	+⅛	4.25	4.43
123⅜	113⅝	Do. 2½pc '09(78.8)	118⅜	+⅛	4.19	4.37
128⅞	117⅝	Do. 2½pc '11(74.6)	123⅜	+⅛	4.14	4.31
107⅞	97⅝	Do. 2½pc '13(89.2)	102⅜xd	+⅛	4.09	4.24
115⅛	105⅜	Do. 2½pc '16(81.6)	110⅜xd	+⅛	4.02	4.16
119½	102¼	Do. 2½pc '20(83.0)	107⅜	+⅛	3.96	4.09
95⅛	86⅛	Do. 2½pc '24‡‡(97.7)	90⅜xd	+⅛	3.88	4.00

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. [illegible]

AMERICANS—Contd

1990 High	1990 Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
21¾	12⅜	Chase Manhattan $12½	12⅜xd	-⅛	$2.36	-	10.3
19¼	14	Chem. Banking Corpn.	14	-⅛	$2.72	-	11.0
12½	8¾	Chrysler $6¼	8¾xd	-⅛	$1.20	-	8.1
18¼	12¼	Citicorp $1	12¼xd	-⅛	$1.78	-	8.2
39⅞	31⅝	Colgate-Palmolive $1	38¼	-⅛	$1.48	-	2.2
12¼	749p	Cont'l Bank Corp $4	749p	-4	$1.00	-	7.6
268p	128p	Corporate Data Sciences	225p	+5	-	-	-
22¾	18½	Dana Corp. $1	20xd	-⅛	$1.60	-	4.5
768p	510p	Data General	603p	+11	-	-	-
29⅜	25⅛	Dun & Bradstreet $1	25⅝	-⅛	$2.00	-	4.4
37⅞	29⅞	Eaton Corpn. 50c	34	-½	$2.00	-	3.3
10⅞	7⅞	Echlin Inc.	7⅞	-⅛	70c	-	5.3
22⅜	16⅜	FPL Group 1c	16⅜xd	-⅛	$2.28	-	7.9
29⅛	21⅞	Fluor Corp 62½pc	24⅞	-⅛	24c	-	0.6
30⅜	24⅜	Ford Motor $1	24⅜xd	+⅛	$3.00	-	7.0
41⅜	36⅞	Gen. Elect. 63c	39⅞	+⅛	$1.88	-	2.7
441p	304p	General Host Corp $1	357p	.....	30c	-	4.8
34⅞	25⅞	Gillette $1	33⅝	-½	96c	-	1.6
315p	111p	Gt American Bank Bk $1	189p	.....	20c	-	6.0
20⅛	15	Greyhound Dial $1½	15⅝xd	-⅛	$1.32	-	4.8
12⅜	973p	Hasbro Inc 50c	973p		16c	-	1.0
60⅜	46½	Honeywell $1½	55⅜	-⅛	$2.75	-	2.8
21⅞	18¼	Houston Inds.	18⅝	-⅛	$2.96	-	9.2

Five to Fifteen Years

Over Fifteen Years

Undated

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

CANADIANS

Continued on next page

LONDON SHARE SERVICE

● Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 071-925-2128

BANKS, HP & LEASING

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
303	209	ANZ SA1	225	–1	44c	1.4	8.8	8.0
214	172	Abbey National 10p	212	.....	5.7	4.3	3.6	8.6
*274	210	Allied Irish Ord.	216	–4	Q40%	3.3	4.4	9.3
£13½	£11½	Algemene Fl.10	£11⅛	–⅛	Q28%	2.1	7.5	6.2
85	63	Anglo Irish	67	–1	†Q18.7%	2.7	6.6	9.1
83	68	Ansbacher (H.) 1p	82	.....	2.5	1.3	4.1	23.6
£71½	£54½	Bancaire Cie Fr100	£58½	–½	Q12½%	–	2.2	–
£22½	£16¾	Banco Bilbao V12	£19½	.....	Q49.1%	2.7	4.3	12.6
£31	£24½	Banco de Santander	£28½	.....	Q25%	2.4	4.0	10.5
286	224	Bank Ireland Ir£1	234	–5	Q14.7%	2.9	5.9	7.8
£19½	£18	Bank Leumi	£19½	.....	–	–	–	–
350	320	Bank Leumi (U.K.)	345	.....	†13.5	–	4.9	–
125	104	Bank Scotland	119	+1	4.55	3.3	5.1	7.9
100¾	83¼	Do. 9¼pc Irrd Pf.	95	.....	9¼%	–	13.0	–
94	39	Bank of Wales	52	.....	2.8	0.8	7.2	25.0
428	352	Barclays £1	400xd	–3	b19.57	3.5	6.5	5.5
22	12	Benchmark 20p	14	.....	1.63	1.0	15.5	8.0
335	310	Brown Shipley £1	315	.....	12.0	2.2	5.1	10.2
*435	341	Cater Allen £1	366	.....	N24.5	♦	8.9	♦
179	112	Chancery	112	.....	9.0	2.7	10.7	4.5
£23¼	£18¼	Commerzbk DM10	£20¼	.....	Q18%	–	3.1	–
£13¼	842	Dai Ichi KBk Y50	887	.....	Q17%	♦	0.4	♦
£313	£261	Deutsche Bk DM50	£272½	–5½	Q28%	–	1.7	–
£20⅝	£18½	Espirito Santo	£18½	.....	Q75c	5.1	2.4	–
253	183	First Nat. Fin. 10p	198xd	.....	13.0	2.1	8.8	6.8
121	96	FNFC 6.3pc Cv. Pf.	96	–2	6.3%	–	8.7	–
£13⅛	968	Fuji Bank Y50	978	.....	Q17%	♦	0.3	♦
325	262	Gerrard & National	291	+2	19.0	–	8.7	–
154	122	Guinness Mahon 10p	122	.....	2.1	–	2.3	–
328	223	Hambros 20p	247	–1	11.5	–	5.7	–
128	93	Do. 7.5pc Cv Pf.	113	–1	7½%	–	8.8	–
[illegible]								

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS – Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
403	161	Sketchley	182	–1	G6.5	♦	5.7	♦
137½	102	Smith & Neph. 10p	115½	+2	4.25	1.8	4.9	13.5
631	460	SmithKline Beecham A	537	–2	W11.0	2.7	2.7	17.9
2788	2098	Do. Equity Units	2468	–55	–	–	–	18.0
298	218	Smiths Inds. 25p	227	+2	t8.9	2.9	5.2	8.9
108	73	Somic	75	.....	2.5	♦	4.4	♦
1600	835	Sotheby's Hldgs Inc Class A	900	.....	s$60c	–	3.8	–
[illegible]								

INSURANCES

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

LONDON SHARE SERVICE

● Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 071-925-2128

MOTORS, AIRCRAFT TRADES – Contd

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY – Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

INVESTMENT TRUST

INVESTMENT TRUST – Contd

INVESTMENT TRUST – Contd

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

WATER

OIL AND GAS

OIL AND GAS – Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

For Acorn Securities see Indonesian Diamond

Tins

MINES – Contd

Miscellaneous

THIRD MARKET

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ‡ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1990-91. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xt ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1.... y	838	......
Finlay Pkg. 5p.... y	53	......
Holt (Jos) 25p.... y	1310	......

IRISH

Cap. 8½% Ln. 1991	£98¼	......
9pc Cap Ln. 1996	£95½	–¼
Fin. 13% 97/02	£113⅝	......
Arnotts	205	+13
Carrol (P.J.)...... y	125	......
Hall (R. & H.)	165	......
Helton Hldgs...... y	72	......
IRG	195	–5
United Drug	160	......

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	40
Amstrad	7
Astec (BSR)	6
BAT	62
BOC Grp.	48
BTR	37
Barclays	34
Blue Circle	21
Boots	24
Bowaters	40
Brit Aerospace	47
British Steel	13
Brit. Telecom	25
Cadburys	30
Charter Cons	42
Comm Union	41
Courtaulds	29
Eurotunnel	55
FKI	7
FNFC	20
Gen Accident	46¼
GEC	18
Glaxo	68
Grand Met	53
Guardian	20
GKN	33
Hanson	20
Hawker Sidd	53
ICI	99
Ladbroke	27
Legal & Gen	34
Lex Service	28
Lloyds Bank	25
Lucas Inds	13
Marks & Spencer	19
Midland Bk	24
Nat West Bk	30
P & O Dfd	52
Polly Peck	39
Racal Elect	19
RHM	30
Rank Org Ord	70
Reed Intnl	38
STC	21
Sears	9
SmKl. Beecham A	48
TI	39
TSB	11
Tesco	19
Thorn EMI	62
Trust Houses	24
T&N	18
Unilever	58
Vickers	19
Wellcome	57

Property

Brit Land	32
Control Secs	4
Land Securities	45
MEPC	45
Mountleigh	13

Oils

Aviva Petlm	5
Brit Petroleum	28
Burmah Oil	55
Conroy Petlm	10
Gaelic Res	3½
Premier	9
Shell	40
Toskar Res	5½
Ultramar	31

Mines

Lonrho	21
RTZ	58

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

FT MANAGED FUNDS SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 071-925-2128

AUTHORISED UNIT TRUSTS

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
(Accum Units)	6	334.2	334.2	357.6	-2.5	0.00
Mandarin Tst	6	66.38	66.38	70.97	-0.6	1.51
(Accum Units)	6	67.39	67.39	72.06	-0.61	1.51
Mngd P'folio Acc	6	70.12	70.89	75.32	-0.31	2.44
Money Market UT	1¼	50.25	50.25	51.01	+0.02	13.58
(Accum Units)	1¼	58.55	58.55	59.43	+0.02	13.50
North American	6	115.5	115.5xd	123.5	-1.9	0.79
(Accum Units)	6	142.7	142.7	152.6	-2.3	0.79
Smaller Cos	6	148.3	148.3	158.6	-0.2	2.48
(Accum Units)	6	166.0	166.0	177.5	-0.3	2.48
Meridian Income	6	100.4	100.4xd	107.4	-0.5	4.40
(Accum Units)	6	107.0	107.0	114.4	-0.6	4.40
Meridian Growth	6	117.1	117.1	125.2	-0.6	2.22

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
European	6	-	-	50.00	----	0.00
Global	6	-	-	50.00	----	0.5
Pacific	6	-	-	50.00	----	0.00
UK Income & Growth	6	-	-	50.00	----	0.4

Premium Life Unit Tst Mngrs Ltd (1400)F
37 Perrymount Rd, Haywards Heath 0444 458721

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Monthly Income	6	45.64	47.32	50.15	-0.08	4.64

Principal Unit Trust Mngmt Ltd (1600)F
16 South Park, Sevenoaks, Kent TN13 1AN 0732 740700

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Principal Tst	5¼	96.68	98.56	104.85	+0.15	3.50

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust information pages.

FT MANAGED FUNDS SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 071-925-2128

Touche Remnant Unit Tst Mngt Ltd – Contd.

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
TR Income Growth	5¼	85.80	86.30	92.02	-0.36	4.78
TR Income Monthly	5¼	31.72	31.72	35.02	-0.16	7.00
TR Japan Growth	5¼	84.41	84.43	90.42	-0.16	0
TR Overseas Growth	5¼	66.30	66.30	70.97	-0.35	0
TR Smaller Cos	5¼	77.38	77.38	82.91	-0.48	3.70
TR Special Ops	5¼	84.10	84.10	89.46	-0.28	4.40
TR Ninl Eq Plan Acc	5¼	35.58	35.58	37.78	-0.28	3.05
TR Ninl Eq Plan Inc	5¼	33.29	33.29	35.41	-0.19	3.04
TR Wwide Sa Sit Acc	5¼	39.04	39.04	41.72	-0.11	0
TR Wwide Sa Sit Inc	5¼	39.00	39.00	41.66	-0.12	0
TR Pension Portfolio						
TR American Gwth	6	27.72	28.09	29.77	+0.05	0
TR Eur Sp Sits	6	35.80	35.41	37.54	-0.12	0
TR General Growth	6	25.74	26.01	27.57	-0.09	0
TR Global Tech	6	29.92	30.32	32.13	-0.14	0
TR Income Growth	6	25.75	25.99	27.55	-0.15	0
TR Japan Growth	6	26.27	26.50	28.09	-0.10	0
TR Mod Equity	6	27.24	27.53	29.18	-0.20	0
TR Overseas Growth	6	28.53	28.90	30.63	-0.14	0
TR Smaller Cos	6	18.52	18.82	19.65	-0.08	0
TR Special Ops	6	17.32	17.51	18.56	-0.05	0
TR Stlg Liquidity	6	26.71	27.18	28.81	......	0
TR Wwide Sa Sits	6	31.74	32.21	34.15	-0.08	0

Trades Union Unit Tst Mngrs (1200)H
MLA Tower, Addiscombe Road, Croydon 081-686 4355

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
TOUT	5	252.9	252.9	266.21	-7.2	3.25

Triton Fd Mngrs. Ltd. (1000)H
Royal Ldn. Hse. Colchester CO1 1RA 0206 764400

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Triton General	5¼	166.3	168.9	179.71	-0.80	3.38

Tyndall Unit Tst Mngrs Ltd (1600)F
25 Bucklesbury, London EC4N 0800 373574

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Austral Value	5¼	40.86	40.85	43.31	-0.24	—
British Lion	5	86.86	86.86	92.08	-0.37	4.23
Accum Units	5	91.78	91.78	97.30	-0.39	4.13
Capital Defender	5	35.21	35.21	37.33	-0.46	10.44
Accum Units	5	42.26	42.26	44.81	-0.55	10.43
1992 Compound Acc	5	77.12	77.12	81.76	-0.38	1.07
Income	5	76.75	76.75	81.36	-0.44	8.25
Accum Units	5	88.35	88.35	93.66	-0.51	8.25
Smaller Co's	5	71.57	71.57	75.87	-0.17	3.56
Accum Units	5	74.71	74.71	79.20	-0.18	3.55
Tiger Accum U	5¼	71.57	71.57	75.88	-1.25	1.94

UK Unit Trust Managers Ltd (0905)F
Worthing Road, Horsham, RH12 1SL 0403 40055

Abbey Life Assurance Co Ltd – Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
High Inc. Ser. 4	470.1	494.9	-1.8	—
Money Ser. 4	252.5	265.8	+0.8	—
Gilt Ser. 4	114.1	120.2	+0.5	—
Custodian Ser. 4	104.0	109.5	-0.3	—
Pension Funds				
Property	637.5	671.1	+0.2	—
Equity	1168.7	1230.3	-10.8	—
Selective	380.6	400.7	-2.1	—
Managed	854.5	899.5	-5.0	—
Security	500.5	526.9	+1.4	—
Fixed Int.	262.6	276.5	+0.4	—
Indexed	157.9	166.3	-0.5	—
American	264.1	278.0	-1.3	—
Japan	315.7	332.4	-2.6	—
European	186.2	196.0	-1.4	—
High Income	132.1	139.1	-0.6	—
Ethical	121.8	128.3	-0.4	—
International	208.3	219.3	+0.5	—

Acuma Life Assurance Ltd
The Glanty, Egham, Surrey TW20 9AT 0784 475339

	Bid Price	Offer Price	+ or -	Yield Gross
Managed	172.6	181.7	-0.5	—
World Growth	142.5	150.0	-0.5	—
UK Equity	200.6	211.1	-0.7	—
UK Small Companies	174.6	183.7	-0.3	—
European	152.1	160.1	-0.6	—
Far Eastern	311.0	327.3	-1.5	—
Nth American	105.1	110.6	-0.5	—
Fixed Interest	127.8	134.5	-0.1	—
Index Linked Stks	142.7	150.2	-0.4	—
Money	129.2	135.9	......	—
Pen Managed	220.8	232.5	-0.7	—
Pen World Growth	156.9	165.2	-0.7	—
Pen UK Equity	287.1	302.2	-0.9	—
Pen UK Small Cos	220.9	232.5	-0.1	—
Pen European	148.9	156.7	-0.7	—
Pen Far Eastern	461.9	486.2	-1.3	—
Pen Nth American	107.1	112.7	-0.6	—
Pen Fixed Interest	156.1	164.3	-0.1	—
Pen Index Lnkd Stks	153.4	161.4	-0.3	—
Pen Money	150.1	157.9	......	—

AEtna Life Insurance Co Ltd
2-12 Pentonville Rd, London N1 9XD 0800 010575

OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

FT MANAGED FUNDS SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 071-925-2128

Pearl Assurance (Unit Funds) Ltd

Prudential Assurance Co

Prudential Holborn Life Ltd

Prudential Holborn Pensions Ltd

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group

Scottish Amicable

Reliance Mutual

Regency Life Assurance Co Ltd

Pioneer Mutual Insurance Co Ltd

Premium Life Assurance Co Ltd

Professional Life Assurance Co Ltd

Prolific Life & Pensions Ltd

Property Equity & Life Ass. Co

Providence Capital Life Assc. Co Ltd

Provident Life Assoc Ltd

Provident Mutual Life Assc. Assn.

Standard Life Assurance Company

Sun Alliance Group

Sun Life of Canada (UK) Ltd

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

TSB Life Ltd

Target Life Assurance Co Ltd

Tunbridge Wells Equitable

UK Life Assurance Co Ltd

Wesleyan Assurance Society

Windsor Life Assur Co Ltd

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

FT MANAGED FUNDS SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 071-925-2128

ISLE OF MAN (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
CAL Investments (IoM) Ltd				
CAL C & C*	57.3	60.3	.....	-
*Dealings Monday.				
Duncan Lawrie Inv. Mgt. Ltd				
DL Sterling	140.8	147.9	.....	5.3
DL International	$1.73	1.84	.....	1.8
Equity & Law International Fund Mgs Ltd				
European Equity	216.54	227.40	-2.79	-
Far Eastern Equity	$2.6401	2.7787	+0.0290	-
North Amer Equity	$1.4131	1.4872	+0.0050	-
UK Equity	150.97	158.89	-0.20	-
Global Equity	118.66	124.88	-0.64	-
UK Gilt & Fxd Int	91.70	96.51	---	-
Deutschemark Deposit	DM5.0542		(z)	-
Dollar Deposit	$0.9959		+0.0004	-
Sterling Deposit	102.13		+0.10	-
Yen Deposit	Y499.69		(z)	-
Managed Currency	95.14	101.56	.....	-
Gartmore Fund Managers (IoM)				
Intl. Inc.* July 10	21.5	22.9	.....	h5.67
* Historic Yield - based on dist. 14 6.90				
John Govett Management (IoM) Ltd				
S.E. Asian Wrt Fd Ltd	$10.38		.....	-
Hellerup Scandinavian Fund Ltd				
Scandinavia Fd	198.75	212.35	.....	1.0
IBI Global Funds Limited				
Intl Stlg Gwth	£14.43	15.19	.....	-
Intl $US Gwth	$14.01	14.75	.....	-
High Income Gilt	£17.84	18.49	.....	-
International Equity	£14.87	15.66	.....	-
International Bond	£14.75	15.30	.....	-
Managed Currency		£21.02	.....	-
Mercury Fund Managers IoM Ltd				
Merc IoM Fund	115.6	123.3	.....	5.3
Merc Intl Bond	48.02	50.50	-0.10	11.2
Refuge Overseas				
Master Fd A	96.94	102.48	-0.42	-
Sarasin (Isle of Man) Ltd				
Fergus Fd June 29		£13.44	.....	-
UK Trend June 26		£10.21	.....	-
Target International (Isle of Man) Ltd				
IMC Offshore Fd	£9.68	10.50	.....	-
Fleet Street Inv Fd	£8.84	9.52	.....	-
Offshore Income Fd Ltd	£9.54	10.08	.....	-
Nelson Ifflns W/W $/S	£11.58	12.18	.....	-
Tattersall Intl Assets	£8.78	9.14	.....	-
Tyndall International (Isle of Man) Ltd				
H.I. Gilt/Bulldog	95.4	-	.....	-
(Accum Shares)	152.2	159.9	-0.2	-

JERSEY (SIB RECOGNISED)

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Barclays International Funds						
PO Box 152, St Helier, Jersey CI 0534 67888						
Australian Eq (Inc)	5¼	£0.965	0.965	1.032	[illegible]	2.4
Global Income (Inc)	5¼	£0.449	0.449	0.488	[illegible]	4.0
Global Resources	5¼	£0.431	0.433	0.464	[illegible]	1.3
Currency Fund						
Stlg Premium Income		£10.16		10.17	.....	h3.8
Capital House Fund Mgrs (CI) Ltd (0900)H						
PO Box 189, Capital Hse, Bath St., St. Helier, Jersey						
Tel: 0534 74689 (Dealing) 0534 75639 (Helpline)						
Facsimile: 0534 79040 Telex: 4192136						
Capital House International Growth Funds Ltd ◆						
Equities						
UK Equity	5	£1.198	1.211	1.285	[illegible]	-
North American	5	$1.605	1.630	1.730	.....	-
Japanese	5	$1.868	1.879	1.994	[illegible]	-
Pacific Basin	5	$2.764	2.797	2.969	[illegible]	-
Continental European	5	$2.803	2.825	2.999	[illegible]	-
Gold	5	$1.397	1.425	1.512	[illegible]	-
Bonds						
Sterling Bond	5	£1.295	1.295	1.386	[illegible]	-
International Bond	5	$1.657	1.657	1.745	[illegible]	-
Currencies						
£ Sterling	0	£23.62		23.62	+0.01	14.45
US$	0	$18.48		18.48	+0.01	7.04
Japanese Yen	0	Y3 526		3 526	.....	7.62
D Marks	0	DM56.73		56 73	+0.01	8.72
Swiss Francs	0	SFr49.92		49 92	+0.01	6.91
Fr Francs	0	FFr219.9		219 9	+0.01	6.11
Ecu's	0	Ecu26.34		26.34	.....	8.59
Managed						
Intl Portfolio	5	$1.832	1.849	1.962	[illegible]	-
Managed Currency	5	$1.912	1.912	2.014	[illegible]	-
Gartmore Fund Managers International Ltd						
PO Box 278, 45 La Motte St., Jersey 0534 27535						
Capital Strategy Fund Ltd (z)						
American Fd		$-		1.770	[illegible]	-
Canadian Fd		C$-		0.8931	[illegible]	1.00
British Fund		£-		2.288	[illegible]	3.00
European Fund		DM-		6.621	[illegible]	-
Eastern European		DM-		5.502	[illegible]	-
Asia Pacific Fd		$-		2.395	[illegible]	-
Japan Fund		Y-		753.3	-0.70	-
Australasian Fd		A$-		0.3518	[illegible]	1.00
Global Resources		$-		0.8318	[illegible]	0.70
Emerging Mkts Fd		£-		1.334	[illegible]	0.50
Int Growth Fund		$-		3.006	[illegible]	0.20
Sterling Bond Fd		£-		.9897	[illegible]	10.32
ECU Bond Fund		Ecu-		0.9462	[illegible]	9.04
Int Bond Fund		$-		1.183	[illegible]	6.65
Global Conv Bd Fd		$-		18.13	+0.05	1.48
US$ Deposit Fd		$-		1.027	.....	7.23
Sterling Deposit Fd		£-		1.017	[illegible]	11.92
French Franc Dep Fd		FFr-		10.34	.....	8.71
Swiss Fr Dep		SFr-		5.148	.....	8.05
DM Deposit Fd		DM-		5.121	[illegible]	6.98
Yen Deposit Fd		Y-		511.1	.....	6.39
Aust Dlr Deposit Fd		A$-		1.052	.....	13.46
John Govett (Channel Islands) Ltd						
PO Box 443, St. Helier, Jersey 0534 75141						
Govett Flexifund Ltd						
Global Equity	5½	$10.25	10.25	10.36	-0.02	1.0
Global Bond	5½	$9.47	9.47	9.51	-0.02	7.5
Global Currency	5½	$9.21	9.21	9.22	+0.04	8.5
Global Balanced	5½	$10.25	10.25	10.33	-0.01	3.0
Dollar Cash	5	$9.34	9.34	9.38	.....	8.5
European Bond	5	[illegible]	12.53	12.58	-0.02	7.0
Dollar Bond	5	$9.49	9.49	9.53	-0.05	8.0
Government Bond	5	$10.13	10.13	10.17	-0.02	8.0
Sterling Cash	5	£4.84	4.84	4.86	+0.02	13.0
Japanese Equity	5½	Y1,535	1,535	1,548	+7	0.0
Far East Equity	5½	$14.75	14.75	14.91	+0.09	1.8
US Equity	5½	$12.50	12.50	12.65	-0.05	1.0
European Equity	5½	[illegible]	17.01	17.18	+0.01	2.0
UK High Income	5	£4.41	4.41	4.43	-0.01	12.0
UK Equity General	5½	£4.81	4.81	4.86	-0.01	3.0
Initial charge may alter for sales in other jurisdictions						
Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F						
PO Box 63, Bond Street, St. Helier, Jersey 0534 76029						
Stlg Fixed Int	5½	£1.077	1.077	1.144	[illegible]	10.57
Global Equity Fund	5½	$15.88	15.88	16.98	+0.03	0.57
European Equity	5½	[illegible]	21.20	22.67	+0.06	0.33
UK Growth (CI) Fund	5½	£4.736	4.736	5.065	[illegible]	2.45
Intnl. Bond Fund						
Sterling Managed	5½	£9.84	9.84	10.49	-0.07	9.60
US Dollar Managed	5½	$12.74	12.74	13.62	+0.03	7.39
International Currency Fund						
Sterling Managed ◆	5½	£24.56	24.56	25.99	-0.07	-
US Dollar Managed ◆	5½	$28.14	28.14	29.78	.....	-
Sterling ◆ ‡	0	£22.34	22.34	22.34	+0.01	14.47
US Dollar ◆ ‡	0	$36.06	36.06	36.06	.....	6.79
Deutschmark ◆ ‡	0	[illegible]	54.38	54.38	.....	6.46
Japanese Yen ◆ ‡	0	Y4,606	4,606	4,606	+1	5.35
Swiss Franc ◆ ‡	0	SFr44.07	44.07	44.07	.....	7.60
Irish Punts ◆ ‡	0	I£20.76	20.76	20.76	.....	8.19

Money Market Trust Funds

Money Market Bank Accounts

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Yen up on rate speculation

THE STRENGTH of the Japanese yen and of high yielding currencies were the main features on the foreign exchange market yesterday. The dollar tested technical support at Y148.80 against the yen, touching a low of Y148.30, before closing at Y148.85 in London, compared with Y151.05 on Monday.

This followed a prediction by Smick Medley International, the US-based consultants, that there is an 80 to 90 per cent chance of a rise in the Bank of Japan's discount rate over the next few months. The discount rate has been increased four times in the past year and was raised by 1 point to 5¼ per cent on March 20.

The Bank of Japan responded by saying that the effects of previous rate rises are still being monitored and dismissed the suggestion of any significant tightening in the immediate future. Mr Hidehiro Iwaki, an economist at Nomura Research Institute, agreed that "the present situation does not warrant any immediate rate hike."

Nevertheless, the yen rose against all currencies, including sterling and the D-Mark. In European trading the D-Mark fell to Y90.35 from Y91.55.

Sterling finished around the day's peak against the D-Mark and other European currencies. There were no new factors and at times during the day the pound fell back on profit taking. The attraction of high London interest rates and speculation that sterling might soon break through DM3.00 continued to provide support.

The pound rose to DM2.9900 from DM2.9775. It also gained 1 cent to $1.8155 and advanced to FFr10.0350 from FFr9.9925 and to SFr2.5350 from SFr2.5175, but fell to Y270.25 from Y273.75. Sterling's index climbed 0.2 to 94.1.

The dollar suffered from demand for the yen and was also weaker against most European currencies. It fell to DM1.6470 from DM1.6495; and to FFr5.5275 from FFr5.5350, but rose to SFr1.3960 from SFr1.3950. The dollar's index declined to 65.5 from 65.9.

High yielding currencies remained generally strong, with the Spanish peseta breaking through its maximum limit within the European Monetary System against the French franc and D-Mark. The Bank of Spain bought FFr199.85m when the franc was fixed at its floor of Pta18.2530 in Madrid, but there was no significant intervention by the Bank of France when the Spanish currency was fixed at its ceiling of FFr5.4785 per 100 pesetas in Paris.

In Frankfurt the Bundesbank sold about Pta95m, according to dealers, when the peseta was fixed at its upper limit of DM1.6330 per 100. At the London close the peseta had climbed to FFr5.4890 and to DM1.6355 per 100.

The Australian dollar closed at 80.70 US cents in London, after breaking through technical resistance at 80.40 cents in Sydney and touching a peak of 81.00. Intervention by the Reserve Bank of Australia failed to halt the advance.

£ IN NEW YORK

July 10	Latest	Previous Close
£ Spot	1.8100-1.8110	1.8085-1.8095
1 month	1.05-1.02pm	1.05-1.04pm
3 months	2.89-2.87pm	2.87-2.85pm
12 months	9.55-9.45pm	9.53-9.43pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	July 10	Previous
8.30 am	94.3	93.8
9.00 am	94.3	93.9
10.00 am	94.2	93.8
11.00 am	94.2	94.0
Noon	94.1	93.9
1.00 pm	94.1	94.0
2.00 pm	94.1	94.0
3.00 pm	94.1	93.9
4.00 pm	94.1	93.9

CURRENCY RATES

July 10	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling	-	0.740502	0.692964
U.S. Dollar	7	[illegible]	1.26119
Canadian $	13.32	[illegible]	1.45857
Austrian Sch.	6½	[illegible]	14.5617
Belgian Franc	10½	[illegible]	42.5937
Danish Krone	9½	[illegible]	7.87742
Deutsche Mark	6.00	[illegible]	2.07025
Neth. Guilder	7¼	[illegible]	2.33258
French Franc	10	[illegible]	6.94918
Italian Lira	12½	[illegible]	1517.22
Japanese Yen	5¼	[illegible]	188.170
Norway Krone	10½	[illegible]	7.94300
Spanish Peseta	-	[illegible]	126.845
Swedish Krona	-	[illegible]	7.50158
Swiss Franc	6.00	[illegible]	1.74802
Greek Drach.	20½	[illegible]	202.863
Irish Punt	-	[illegible]	0.771750

† European Commission Calculations.
* All SDR rates are for July 9

CURRENCY MOVEMENTS

July 10	Bank of England Index	Morgan** Guaranty Changes %
Sterling	94.1	-18.6
U.S. Dollar	65.5	-12.4
Canadian Dollar	104.3	+1.5
Austrian Schilling	109.4	+11.3
Belgian Franc	110.9	-2.6
Danish Krone	110.0	+4.3
Deutsche Mark	117.7	+23.6
Swiss Franc	113.6	+22.2
Guilder	113.8	+15.4
French Franc	104.1	-12.4
Lira	101.0	-18.6
Yen	122.7	+50.2

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) **Rates are for July 9

OTHER CURRENCIES

July 10	£	$
Argentina	9560.85-9601.70	5260.00-5280.00
Australia	2.2455-2.2475	1.2355-1.2365
Brazil	119.99-121.110	66.000-66.600
Finland	6.9725-6.9860	3.8345-3.8365
Greece	291.05-295.55	159.40-162.00
Hong Kong	14.1110-14.1250	7.7660-7.7680
Iran	124.50*	68.50*
Korea(Sth)	1287.30-1308.10	714.70-720.30
Kuwait	0.5300-0.5320	0.2910-0.2915
Luxembourg	61.30-61.40	33.75-33.85
Malaysia	4.9030-4.9150	2.7000-2.7020
Mexico	5205.30-5210.00	2864.00-2874.00
N. Zealand	3.0410-3.0655	1.6825-1.6845
Saudi Ar.	6.8300-6.8370	3.7495-3.7505
Singapore	3.2980-3.3055	1.8155-1.8175
S. Af (Cm)	4.7840-4.7960	2.6355-2.6370
S. Af (Fn)	7.1260-7.3600	3.9660-4.0485
Taiwan	49.30-49.40	27.10-27.15
U.A.E.	6.6675-6.7060	3.6715-3.6735

*Selling rate

EURO-CURRENCY INTEREST RATES

Jul 10	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	14⅝-14⅜	15-14¾	14⅞-14¾	14⅞-14¾	14⅞-14¾	14⅝-14⅜
US Dollar	8½-8¼	8⅜-8¼	8⅜-8¼	8⅜-8¼	8⅜-8⅛	8⅜-8⅛
Can. Dollar	14⅛-14⅛	14⅛-14⅛	13⅞-13½	13⅞-13⅞	13⅞-13⅞	13⅞-13⅛
D. Guilder	7⅞-7⅞	7⅞-7⅞	8-7⅞	8⅛-8⅛	8⅛-8⅛	8⅛-8⅛
Sw. Franc	9½-9¼	9½-9¼	9⅝-9½	9⅛-9⅞	9⅛-8⅞	8⅞-8⅞
Deutschmark	8¼-8⅛	8⅜-8¼	8⅜-8¼	8⅜-8⅜	8⅝-8⅜	8⅞-8⅝
Fr. Franc	10⅛-10⅛	10⅛-9⅞	10-9⅞	10⅛-10	10⅛-10⅛	10⅛-10⅛
Italian Lira	13-11	11½-10½	11⅛-10⅛	11⅛-10⅞	11½-11⅛	12-11⅛
Belgian Franc	9½-9⅜	9½-9⅜	9⅝-9⅛	9⅝-9⅛	9⅝-9⅛	9⅝-9⅛
Yen	7⅛-7⅛	7⅛-7⅛	7½-7⅛	7⅛-7½	7⅞-7⅛	7⅞-7⅛
D.Krone	10½-10⅛	10⅛-10⅛	10½-10⅛	10⅛-10¼	10⅛-10¼	10⅜-10⅛
Asian $Sing	8⅞-8⅛	8⅞-8⅛	8⅛-8¼	8⅛-8¼	8⅞-8⅛	8⅛-8⅛

Long term Eurodollars; two years 8⅞-8⅞ per cent; three years 9-8⅞ per cent; four years 9⅛-9 per cent; five years 9¼-9⅛ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT- FORWARD AGAINST THE POUND

July 10	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8125 - 1.8275	1.8150 - 1.8160	1.02-1.00cpm	6.68	2.87-2.84pm	6.29
Canada	2.0990 - 2.1130	2.1000 - 2.1010	0.20-0.11cpm	0.89	0.66-0.53pm	1.13
Netherlands	3.36 - 3.37½	3.36¼ - 3.37¼	2-1⅞cpm	6.92	5½-5⅛pm	6.48
Belgium	61.25 - 61.65	61.30 - 61.40	34-22cpm	5.48	92-73pm	5.39
Denmark	11.34¼ - 11.40½	11.34¼ - 11.35¼	4⅝-3⅞orepm	4.50	13⅞-11⅞pm	4.41
Ireland	1.1065 - 1.1185	1.1140 - 1.1150	0.48-0.43cpm	4.90	1.28-1.18pm	4.41
W. Germany	2.98¼ - 2.99½	2.98¼ - 2.99¼	1¾-1⅝pfpm	6.79	4¾-4⅝pm	6.28
Portugal	260.80 - 262.60	260.85 - 261.85	57-37cpm	2.16	88-49pm	1.05
Spain	182.50 - 183.55	182.90 - 183.20	par-7cdis	-0.23	2-10dis	-0.13
Italy	2184¼ - 2196	2190 - 2191	8-6lirepm	3.84	20-18pm	3.48
Norway	11.42¼ - 11.50	11.42¼ - 11.43¼	4⅛-3½orepm	4.00	11-9⅛pm	3.61
France	10.00 - 10.05½	10.03 - 10.04	4⅛-4cpm	5.02	11¼-11⅛pm	4.62
Sweden	10.79¼ - 10.85¼	10.80¼ - 10.81¼	3-2½orepm	3.06	7⅛-5⅞pm	2.41
Japan	269⅛ - 272½	269¼ - 270¼	1¾-1⅝ypm	7.47	4⅞-4¼pm	7.10
Austria	20.97 - 21.05	20.99 - 21.02	11¼-10⅞gropm	6.45	32¼-30½pm	5.94
Switzerland	2.51¾ - 2.54	2.53 - 2.54	1¼-1⅛cpm	5.66	3½-3⅛pm	4.09
ECU	1.4355 - 1.4410	1.4355 - 1.4365	0.62-0.59cpm	5.03	1.63-1.58pm	4.45

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.50-5.45cpm 12 month 9.57-9.47cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

July 10	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.8125 - 1.8275	1.8150 - 1.8160	1.02-1.00cpm	6.68	2.87-2.84pm	6.29
Ireland†	1.6300 - 1.6370	1.6300 - 1.6310	0.29-0.24cpm	1.95	0.80-0.70pm	1.84
Canada	1.1550 - 1.1590	1.1570 - 1.1580	0.55-0.58cdis	-5.86	1.49-1.54dis	-5.24
Netherlands	1.8450 - 1.8555	1.8545 - 1.8555	0.08-0.05cpm	0.42	0.08-0.05pm	0.14
Belgium	33.65 - 33.85	33.75 - 33.85	par-6.00cdis	-1.07	4.00-14.00dis	-1.07
Denmark	6.23¼ - 6.25¼	6.24¼ - 6.25¼	1.00-1.30oredis	-2.21	2.60-3.40dis	-1.92
W. Germany	1.6365 - 1.6475	1.6465 - 1.6475	0.03-0.01pfpm	0.15	0.03pm-par	0.04
Portugal	143.65 - 143.95	143.80 - 143.90	47-57cdis	-4.34	170-190dis	-5.01
Spain	100.35 - 100.90	100.80 - 100.90	55-61cdis	-6.92	160-170dis	-6.57
Italy	1199¾ - 1206¼	1206¼ - 1206¾	2.60-3.10liredis	-2.84	8.30-9.00dis	-2.87
Norway	6.28½ - 6.30	6.29½ - 6.30	1.30-1.55oredis	-2.72	4.00-4.60dis	-2.73
France	5.49½ - 5.53	5.52¼ - 5.53	0.74-0.79cdis	-1.67	2.30-2.40dis	-1.71
Sweden	5.93¼ - 5.95½	5.95 - 5.95½	1.84-1.89oredis	-3.77	5.60-6.15dis	-3.96
Japan	148.30 - 150.05	148.80 - 148.90	0.12-0.10ypm	0.89	0.29-0.26pm	0.74
Austria	11.52¼ - 11.55¼	11.54½ - 11.55	0.05-0.45grodis	-0.26	0.30-1.40dis	-0.29
Switzerland	1.3825 - 1.3965	1.3955 - 1.3965	0.10-0.13cdis	-1.00	0.26-0.32dis	-0.84
ECU	1.2600 - 1.2645	1.2575 - 1.2585	0.19-0.18cpm	1.76	0.61-0.58pm	1.89

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu July 10	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.1679	42.5937	+1.01	+0.45	±1.5508
Danish Krone	7.79845	7.87742	+1.01	+0.45	±1.6453
German D-Mark	2.04446	2.07025	+1.26	+0.70	±1.1762
French Franc	6.85684	6.94918	+1.35	+0.79	±1.3618
Dutch Guilder	2.30358	2.33258	+1.26	+0.70	±1.5272
Irish Punt	0.763159	0.771750	+1.13	+0.57	±1.6689
Italian Lira	1529.70	1517.22	-0.82	-1.38	±1.5162
Spanish Peseta	132.889	126.845	-4.55	-4.55	±4.2705

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

July 10	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.816	2.990	270.3	10.04	2.536	3.368	2191	2.101	61.35
$	0.551	1	1.646	148.8	5.529	1.396	1.855	1206	1.157	33.78
DM	0.334	0.607	1	90.40	3.358	0.848	1.126	732.8	0.703	20.52
YEN	3.700	6.718	11.06	1000.	37.14	9.378	12.46	8106	7.773	227.0
F Fr.	0.996	1.809	2.978	269.2	10.	2.525	3.355	2182	2.093	61.11
S Fr.	0.394	0.716	1.179	106.6	3.961	1	1.329	864.3	0.829	24.20
H Fl.	0.297	0.539	0.888	80.26	2.981	0.753	1	650.5	0.624	18.22
Lira	0.456	0.829	1.365	123.4	4.582	1.157	1.537	1000.	0.959	28.00
C $	0.476	0.864	1.423	128.7	4.779	1.207	1.603	1043	1	29.20
B Fr.	1.630	2.960	4.874	440.6	16.37	4.132	5.490	3571	3.425	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS £50,000 64ths of 100%
[illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS $100,000 64ths of 100%
[illegible]

LIFFE BUND FUTURES OPTIONS DM250,000 points of 100%
[illegible]

LIFFE EUROMARK OPTIONS DM1m points of 100%
[illegible]

LIFFE EURODOLLAR OPTIONS $1m points of 100%
[illegible]

LIFFE SHORT STERLING OPTIONS £500,000 points of 100%
[illegible]

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev.
Sep	84-22	84-23	84-12	83-28
Dec	84-21	84-12	84-12	83-29

Estimated volume 22631 (15290) Previous day's open int. 34209 (34793)

US TREASURY BONDS 8% $100,000 32nds of 100%
[illegible]

6% NOTIONAL GERMAN GOVT. BOND DM250,000 100ths of 100%

	Close	High	Low	Prev.
Sep	83.17	83.33	83.08	83.29
Dec	83.04	83.18	82.98	83.16

Estimated volume 30708 (18670) Previous day's open int. 62181 (60880)

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%
[illegible]

THREE MONTH STERLING £500,000 points of 100%
[illegible]

THREE MONTH EURODOLLAR $1m points of 100%
[illegible]

THREE MONTH EUROMARK DM 1m points of 100%
[illegible]

THREE MONTH ECU ECU 1m points of 100%
[illegible]

FT-SE 100 INDEX £25 per full index point
[illegible]

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.8155	1.8054	1.7870	1.7608	1.7203

DM-STERLING $s per £

	Latest	High	Low	Prev.
Sep	1.7968	1.7968	1.7948	1.7862
Dec	1.7680	1.7720	1.7676	1.7600
Mar	-	1.7480	-	1.7366

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%
[illegible]

U.S. TREASURY BILLS (IMM) $1m points of 100%
[illegible]

SWISS FRANC (IMM) SFr 125,000 $ per SFr
[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1)
[illegible]

JAPANESE YEN (IMM) Y12.5m $ per Y100
[illegible]

DEUTSCHE MARK (IMM) DM125,000 $ per DM
[illegible]

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%
[illegible]

STANDARD & POORS 500 INDEX $500 times index
[illegible]

10 YEAR 10% NOTIONAL FRENCH BOND (MATIF) FUTURES
[illegible]

OPTION ON LONG-TERM FRENCH BOND (MATIF)
[illegible]

THREE-MONTH PIBOR FUTURES (MATIF) (Paris interbank offered rate)
[illegible]

CAC-40 FUTURES (MATIF) Stock Index
[illegible]

BASE LENDING RATES

	%		%		%
ABN Bank	15	Coutts & Co	15	NatWestminster	15
Adam & Company	15	Cyprus Popular Bk	15	Northern Bank Ltd	15
Allied Irish Bank	15	Dunbar Bank PLC	15	Nykredit Mortgage Bank	15½
Allied Trust Bank	15	Duncan Lawrie	15	Provincial Bank PLC	15
● Henry Ansbacher	15	Equatorial Bank plc	15	Roxburghe Bank Ltd	15½
Associates Cap Corp	15½	Exeter Trust Ltd	15½	Royal Bk of Scotland	15
● B & C Merchant Bank	15	Financial & Gen. Bank	15	Royal Trust Bank	15
Bank of Baroda	15	First National Bank Plc	16½	● Smith & Williamson Secs	15
Banco Bilbao Vizcaya	15	● Robert Fleming & Co	15	Standard Chartered	15
Bank Credit & Comm	15	Robert Fraser & Partners	15½	TSB	15
Bank of Cyprus	15	Girobank	15	Unibank plc	15
Bank of Ireland	15	● Guinness Mahon	15	● United Bk of Kuwait	15
Bank of India	15	HFC Bank plc	15	United Mizrahi Bank	15
Bank of Scotland	15	● Hambros Bank	15	Unity Trust Bank Plc	15
Banque Belge Ltd	15	Hampshire Trust Plc	15½	Western Trust	15
Barclays Bank	15	Heritable & Gen Inv Bnk	15	Westpac Bank Corp.	15
Benchmark Bank PLC	15	● Hill Samuel	§15	Whiteaway Laidlaw	15
Brit Bk of Mid East	15	C. Hoare & Co.	15	Yorkshire Bank	15
● Brown Shipley	15	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	Meghraj Bank Ltd	15		
City Merchants Bank	15	McDonnell Douglas Bnk	15		
Clydesdale Bank	15	Midland Bank	15		
Comm. Bk of London Plc	15	Mount Banking	15		
Co-operative Bank	*15	Nat Bk. of Kuwait	15		

● Members of British Merchant Banking & Securities Houses Association. * Deposit now 5.9% Savewise 8.5%. Top Tier-£50,000+ instant access 13.7% ‡ Mortgage base rate. § Demand deposit 9%. Mortgage 15.2% - 15.95%

MONEY MARKETS

Rates little changed

MARKET EXPECTATIONS point to no change in UK bank base rates until the last quarter of the year at the earliest.

This is keeping trading quiet in sterling cash interest rates and futures despite the recent sharp rise by the pound. The market regards a rise in bank base rates - to rein in strong consumer demand - as politically unacceptable and sees the move to push sterling higher as an alternative way of tightening monetary policy. Against this background the interest rate markets have failed to join in the mood of euphoria surrounding sterling.

UK clearing bank base lending rate 15 per cent from October 5

Rates were little changed yesterday, with three-month interbank quoted at 14⅞-14¾ per cent, against 14⅞-14¾ per cent, while 12-month money was 14⅝-14½ per cent, compared with 14⅝-14½%.

December short sterling futures were again more active than the near month of September on Liffe. The December contact opened slightly firmer at 86.06, and closed towards the top of the day's range at 86.13, against 86.05 on Monday.

Credit remained in fairly comfortable supply on the money market. The Bank of England forecast a day-to-day shortage of £350m, but revised this to £250m at noon and to £300m in the afternoon.

Total help of £249m was given. The authorities did not operate in the market before lunch, but in the afternoon bought £19m bank bills in band 1 at 14⅞ per cent. Late assistance of around £230m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £335m, with the unwinding of repurchase agreements on bills draining £156m. These outweighed Exchequer transactions adding £205m to liquidity, a fall in the note circulation of £75m, and bank balances above target of £50m.

In Brussels the Belgian National Bank cut three-month Treasury bills - the main instrument of monetary policy - by 0.10 per cent to 9.30 per cent. The rate on one and two-month bills was reduced by a similar amount to 9.30 per cent.

In Frankfurt call money rose to 8.10 from 8.00 per cent as credit conditions remained tight. The Bundesbank offered liquidity via a 28-day securities repurchase agreement tender, at variable bid rates. Two earlier pacts totalling an estimated DM18.6bn expire today.

FT LONDON INTERBANK FIXING

(11.00 a.m. July 10) 3 months US dollars		6 months US Dollars	
bid 8¼	offer 8⅜	bid 8⅛	offer 8¼

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

Prime rate	10
Broker loan rate	9¾
Fed.funds	8⅜
Fed.funds at intervention	8⅛

Treasury Bills and Bonds

One month	6.98	Three year	8.45
Two month	7.48	Four year	8.50
Three month	8.07	Five year	8.49
Six month	8.17	Seven year	8.59
One year	8.19	10-year	8.57
Two year	8.39	30-year	8.56

July 10	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	8.00-8.20	7.90-8.05	7.95-8.10	8.05-8.20	8.30-8.45	8.00
Paris	10-10⅛	9⅞-10	9⅞-10⅛	10-10⅛	10⅛-10⅛	9.50
Zurich	8¾-8⅝	9-9⅛	-	9-9⅛	-	-
Amsterdam	7.81-7.88	7.90-7.98	-	8.15-8.25	-	-
Tokyo	7⅛-7⅞	7⅞-7½	-	7⅞-7½	-	-
Milan	11-11½	11⅛-11⅛	-	11⅛-11½	-	-
Brussels	8.95	9⅛-9½	-	9⅛-9⅛	-	-
Dublin	10⅛-10⅜	10⅛-10⅜	10⅛-10½	10⅛-10½	10⅛-10½	-

LONDON MONEY RATES

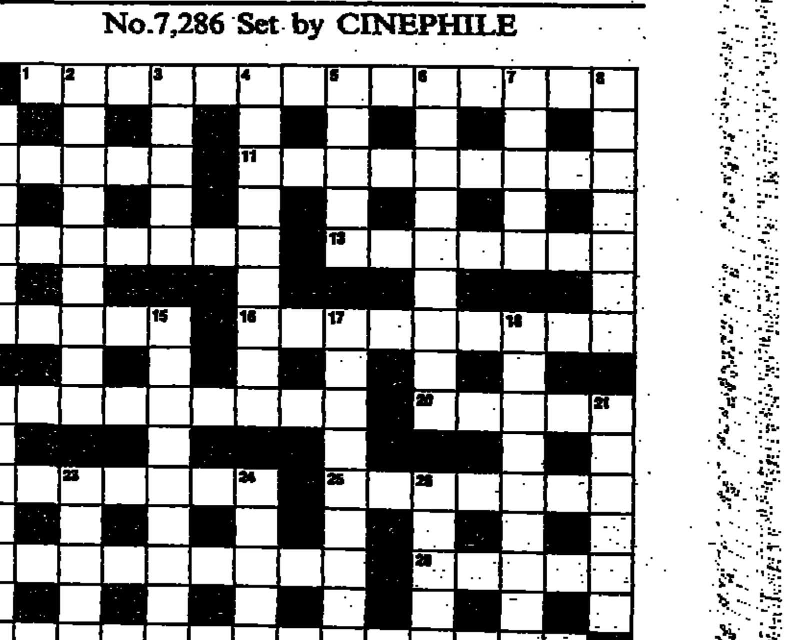
Jul 10	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	15⅛	15	15	15	14⅞	14⅞
Interbank Bid	14⅞	14⅞	14⅞	14⅞	14⅞	14⅞
Sterling CDs	-	-	14⅞	14⅞	14⅞	14⅞
Local Authority Deps.	14⅞	14⅞	14⅞	14⅞	14⅞	14⅝
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	15	14⅞	14⅞	14⅞	-	-
Company Deposits	-	-	14⅞	14⅞	14⅞	14⅞
Finance House Deposits	-	-	14⅞	15	14⅞	14⅞
Treasury Bills (Buy)	-	-	14⅞	14⅞	-	-
Bank Bills (Buy)	-	-	14⅝	14⅝	13⅞	-
Fine Trade Bills (Buy)	-	-	15⅛	15	14½	-
Dollar CDs	-	-	8.30	8.30	8.35	8.47
SDR Linked Dep. Offer	-	-	8⅛	8⅞	9	9⅛
SDR Linked Dep. Bid	-	-	8⅝	8¾	8⅞	9
ECU Linked Dep. Offer	-	-	10	10⅛	10⅛	10⅜
ECU Linked Dep. Bid	-	-	9⅞	10	10⅜	10⅛

Treasury Bills (sell); one-month 14⅞ per cent; three months 14⅞ per cent; Bank Bills (sell): one-month 14⅞ per cent; three months 14⅞ per cent; Treasury Bills; Average tender rate of discount 14.3341 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day June 29, 1990. Agreed rates for period July 25, 1990 to August 25, 1990, Scheme I: 15.84 p.c., Schemes II & III: 16.25 p.c. Reference rate for period June 1, 1990 to June 29, 1990, Scheme IV&V: 15.025 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15½ from July 1, 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 11½ per cent; one-three months 13 per cent; three-six months 13 per cent; six-nine months 13 per cent; nine-twelve months 13 per cent; Under £100,000 11½ per cent from Oct 9, 1989, Deposits withdrawn for cash 5 per cent.

JOTTER PAD

CROSSWORD

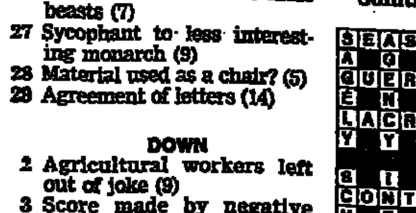
No.7,286 Set by CINEPHILE



ACROSS
1 Love writer, old hat, is not otherwise unsettled (4,2,8)
10 The old Bill? That's nice (5)
11 Heartless shorthorn, young, doesn't like strong wind (5,4)
12 Put the fire on for the lady Erica (7)
13 Solvent following TNT (7)
14 Painter of power? (5)
16 Appeal to travellers, first getting fat without a lot of work (3,6)
19 Man with money coming from the same party (9)
20 Given piece of land in Umtali (5)
22 Informal wear, universal in cellist (7)
25 Stiffened cloth for two male beasts (7)
27 Sycophant to less interesting monarch (9)
28 Material used as a chair? (5)
29 Agreement of letters (14)

DOWN
2 Agricultural workers left out of joke (9)
3 Score made by negative companion (5)
4 Deceased man, as they say, with his eyes open (9)
5 Craft turned about (1-4)
6 Theological offence against church property: note where one lies (6,8)
7 Compiler's a long time with his supposed persons (5)
8 Aristocrat to study food shortage? (2,5)
9 Writer turns up to see axe on relation (6)
15 Sailor in US city announces his engagement (3-6)
17 Poet, nobly, or doctor, wrongly (4,5)
18 Insect takes one watery expense to another (9)
19 ..... and another at peace (7)
21 Joke about people of importance (6)
23 Way up off the ground? (5)
24 A bit of a fight (5)
26 Actors at English class (5)

Solution to Puzzle No.7,285



WORLD STOCK MARKETS

CANADA

TORONTO
Closing prices July 9

MONTREAL
Closing prices July 9

Total Sales 4,393,009 shares.

INDICES

NEW YORK

DOW JONES	July 10	July 9	July 6	July 5	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
ϕIndustrials	2890.84	2914.11	2904.95	2879.21	2935.89 (15/6)	2543.24 (30/1)	2935.89 (15/6/90)	41.22 (2/7/32)
Home Bonds	90.93	90.93	91.04	91.10	93.04 (3/1)	88.48 (2/5)	—	—
Transport	1145.62	1149.09	1140.69	1131.02	1212.77 (6/6)	1031.83 (30/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	203.60	205.11	206.11	206.17	236.23 (2/1)	203.09 (30/4)	236.23 (2/1/90)	10.50 (8/4/32)

ϕDay's High 2928.22 (2927.97) Low 2882.18 (2898.84)

STANDARD AND POOR'S	July 10	July 9	July 6	July 5	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	356.49	359.52	358.42	355.68	367.40 (4/6)	322.98 (30/1)	367.40 (4/6/90)	4.40 (1/6/32)
Industrials	420.98	424.10	422.33	418.90	428.34 (4/6)	371.92 (30/1)	428.34 (4/6/90)	3.62 (21/6/32)
Financial	28.35	28.72	28.71	28.51	31.87 (3/1)	26.59 (27/4)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	194.76	196.23	195.78	194.45	200.21 (4/6)	178.43 (30/1)	200.21 (4/6/90)	4.46 (25/4/42)
Amex Mkt. Value	357.73	358.65	358.87	358.49	382.45 (5/1)	342.64 (24/4)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	460.97	461.68	460.53	459.19	468.86 (13/6)	410.72 (30/1)	485.73 (9/10/89)	54.87 (31/10/72)

	July 6	Jun 29	Jun 22	year ago (approx.)
Dow Industrial Div. Yield	3.71	3.74	3.77	3.63

	Jul 4	Jun 27	Jun 20	year ago (approx.)
S & P Industrial div. yield	2.92	2.97	2.93	3.09
S & P Indl. P/E ratio	17.00	16.70	16.87	12.97

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Wal-Mart	4,565,600	33⅞	+ ⅝
AT & T	2,865,400	37½	- ¼
Glaxo Hldgs.	2,055,700	30⅞	+ ¼
Citicorp	1,772,600	21¾	- ½
Pitney Bowes	1,639,400	43½	- 6⅞
Philip Morris	1,619,400	48⅞	- ⅞
IBM	1,244,000	117¼	- 1¼
Gen. Elec.	1,166,700	70¼	- ⅝
Albany Int.	1,150,300	14½	- 1½
Varity Corp.	1,132,700	3	---

TRADING ACTIVITY

† Volume (Millions)	July 10	July 9	July 6
New York	147.630	119.390	111.730
Amex	11.919	11.057	7.324
NASDAQ	(u)	118.502	101.399
Issues Traded	1,990	1,972	1,944
Rises	541	755	851
Falls	968	668	540
Unchanged	481	549	553
New Highs	62	65	42
New Lows	50	40	45

CANADA

TORONTO	July 10	July 9	July 6	July 5	1990 HIGH	1990 LOW
Metals & Minerals	3244.88	3234.20	3271.00	3257.40	3453.05 (4/1)	2850.80 (23/4)
Composite	3527.94	3540.64	3549.80	3551.30	4009.47 (3/1)	3334.20 (1/5)
MONTREAL Portfolio	1828.55	1833.65	1840.71	1836.79	2060.90 (3/1)	1720.25 (27/4)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	July 10	July 9	July 6	July 5	1990 HIGH	1990 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1581.2	1586.9	1554.2	1557.7	1713.7 (12/1)	1434.5 (30/4)
All Mining (1/1/80)	750.3	754.5	737.1	741.9	868.8 (5/1)	711.7 (2/7)
AUSTRIA						
Credit Aktien (30/12/84)	630.65	629.77	621.24	621.82	703.29 (19/3)	526.59 (2/1)
BELGIUM						
Brussels SE (Cash Mkt) (1/1/80)	6235.13	6244.17	6245.14	6240.26	6599.43 (12/1)	5568.16 (26/2)
DENMARK						
Copenhagen SE (3/1/83)	376.74	377.98	378.28	379.66	382.50 (15/6)	352.96 (25/4)
FINLAND						
Unitas General (1975)	537.8	538.6	539.8	540.3	677.3 (29/1)	537.8 (4/7)
FRANCE						
CAC General (31/12/82)	531.54	535.77	533.98	538.33	564.62 (30/5)	482.94 (26/2)
CAC 40 (31/12/87)	1963.02	1990.17	2001.90	1999.98	2129.32 (20/4)	1800.32 (26/2)
GERMANY						
FAZ Aktien (31/12/58)	807.38	816.29	814.22	814.26	838.92 (3/4)	732.71 (24/1)
Commerzbank (1/12/53)	2333.0	2360.4	2364.2	2354.3	2414.0 (3/4)	2151.5 (24/1)
DAX (30/12/87)	1909.63	1923.86	1932.80	1914.18	1968.55 (30/3)	1756.41 (24/1)
HONG KONG						
Hang Seng Bank (31/7/64)	3408.16	3385.15	3357.61	3356.44	3408.16 (10/7)	2738.24 (1/2)
IRELAND						
ISEQ Overall (4/1/88)	1672.54	1680.89	1678.05	1684.48	1893.10 (22/1)	1582.61 (2/5)
ITALY						
Banca Com. Ital. (1972)	720.66	729.88	729.49	738.63	763.52 (14/6)	646.73 (26/2)
JAPAN						
Nikkei (16/5/49)	32152.43	32538.28	32465.12	32351.67	38712.88 (4/1)	28002.07 (2/4)
Tokyo SE (Topix) (4/1/68)	2337.77	2362.41	2364.20	2362.04	2867.70 (4/1)	2058.82 (5/4)
2nd Section (4/1/68)	4387.67	4397.72	4323.63	4253.88	4397.72 (9/7)	3313.92 (5/4)
MALAYSIA						
KLSE Composite (4/4/86)	592.57	592.18	593.86	592.98	622.20 (20/2)	518.53 (2/5)
NETHERLANDS						
CBS Tfl.Rtn.Gen.(End 1983)	262.7	264.1	264.1	263.6	269.0 (3/1)	240.1 (26/2)
CBS All Shr (End 1983)	195.7	196.7	196.7	196.4	206.3 (3/1)	184.2 (26/2)
NORWAY						
Oslo SE (Ind) (2/1/83)	843.44	833.75	850.87	832.25	859.05 (5/6)	708.67 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	888.54	884.79	873.67	870.48	1160.70 (21/3)	740.31 (6/6)
SINGAPORE						
SES All-Singapore (2/4/75)	434.26	433.70	434.47	435.82	443.34 (6/2)	401.34 (30/4)
SOUTH AFRICA						
JSE Gold (28/9/78)	1463.0&	1525.8	1538.0	1537.0	2230.0 (16/1)	1322.0 (20/6)
JSE Industrial (28/9/78)	2952.0&	2956.0	2970.0	2977.0	3211.0 (6/2)	2794.0 (25/4)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	718.75	715.28	716.17	723.10	928.82 (4/1)	688.66 (30/4)
SPAIN						
Madrid SE (30/12/85)	302.77	300.84	298.23	299.12	302.85 (4/1)	240.17 (2/4)
SWEDEN						
Affarsvariden Gen. (1/2/37)	1326.3	1325.8	1325.0	1329.9	1329.9 (5/7)	1127.20 (2/4)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	842.3	843.0	842.3	836.8	844.2 (4/7)	737.6 (27/3)
TAIWAN**						
Weighted Price (30/6/66)	5286.61	4986.40	4693.20	4524.55	12495.34 (10/2)	4524.55 (5/7)
THAILAND						
Bangkok SET (30/4/75)	1032.07	(c)	1050.13	1070.18	1087.53 (3/7)	760.39 (7/2)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	526.0	524.4	523.3	571.0 (4/1)	468.3 (2/4)

**Saturday July 7: Taiwan Weighted Price: 4905.83. Korea Comp Ex. 713.41
& Subject to official recalculation.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Tuesday July 10 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	8.1m	550	-9	NKK	4m	569	-16
Canon	6.5m	1,880	-20	Honshu Paper	3.9m	2,930	-10
Sasaki Glass	5.2m	1,300	+120	MHI	3.7m	972	-13
Fuji Photo Film	4.1m	4,680	-40	Nippon Hodo	3.6m	3,550	-50
Matsushita	4m	2,140	-50	Amada	3.3m	1,830	+30

4pm prices July 10

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A–A–A –								
37½	19	AAR	.48	2.2	14	381	23⅛	22	22	−⅛
9⅝	8	ACM n	1.01	12.		139	8⅝	8⅝	8⅝	+⅛
11⅝	9⅝	ACMIn	1.26	12.		514	10¼	10⅛	10¼	+⅛
9¼	7¼	ACM M n	1.01	12.		247	8¼	8⅛	8⅛	−⅛
12⅛	10	ACMMM				293	11¼	11	11¼	+¼
11½	9⅜	ACM Sc	1.26	13.		1028	10⅛	10	10	−⅛
9⅜	8⅛	ACMSp	1.01	12.		457	8⅜	8¼	8¼	−⅛
24⅝	14⅞	AL Lab	.16	.7	20	383	23½	22⅞	22⅞	−⅝
5¼	2⅛	AM Intl				2252	2⅜	2¼	2⅜	
23¼	10¼	AM In pf	2	16.		49	12¼	11⅞	12⅛	
107¼	62½	AMR			12	3606	62⅞	61⅞	61⅞	−¾
24⅝	22⅞	ANR pf	2.12	8.7		39	24⅜	24¼	24⅜	+½
4¼	3	ARX				65	3⅜	3¼	3⅜	
72¾	41⅛	ASA	3a	6.7		532	44¾	43½	44½	−⅛
42⅛	29⅝	AbtLab s	.84	2.0	21	9957	u42⅜	42⅛	42⅜	+¼
15½	11¼	Abitibi g	.50			x21	13⅝	13½	13⅝	
12⅛	7½	AcmeC	.40	4.8	10	670	8½	7⅞	8⅛	+⅛
9¾	7⅝	AcmeE	.32	3.8	10	12	8⅜	8⅜	8⅜	
49½	29⅜	Acuson			27	618	u45	43¼	44⅞	+1½
16½	13⅞	AdaEx	2.06e	13.		85	16¼	16⅛	16⅛	−⅛
15⅜	10	Adobe				80	11¼	11	11	−⅛
20¼	18	Adob pf	1.84	9.5		26	19⅜	19¼	19⅜	+⅛
21⅝	20⅛	Adob pf	2.40	12.		7	20¾	20¾	20¾	−⅛
11⅛	6⅞	AMD			19	1423	9⅛	9	9	−⅛
32¾	28¼	AMD pf	3	9.7		56	31	31	31	+⅛
10⅛	3⅛	Advest	.16	4.0	50	126	4⅛	4	4	
62½	45¼	AetnLf	2.76	5.2	9	2826	53	52½	52⅝	−⅛
13⅞	9¼	AflPb	.24	2.3		916	10⅜	10¼	10¼	−⅛
25	16⅛	Ahmans	.88	4.3	8	1470	20⅞	20½	20½	−¼
3⅜	1⅞	Aileen				14	2⅝	2½	2½	−⅛
58	40⅝	AirPrd	1.44	2.5	15	1085	58	57⅝	57⅝	−¼
25¼	14	AirFrt s			18	1398	u25	24½	24½	−½
25⅛	15½	Airgas			30	76	19½	19¼	19½	+¼
20⅜	16½	Airlease	2.52	14.	9	49	17⅞	17⅝	17⅜	+⅛

Continued on Page 37

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
85	60	Raythn	2.40	3.9	7	1161	62	61	61	- ⅛
28½	21	RdrDg n	.48	1.8		816	26¼	26	26¼	+ ⅛
5	15-16	RdgB n				198	1⅝	1⅝	1⅝	
16⅞	14	REIT	1.42	9.5	12	226	15¼	14⅞	15	- ⅛
15⅞	13⅝	RltRef	1.72	13.	8	30	13⅞	13⅝	13⅝	- ⅛
12⅝	4⅞	RecnEq				155	5¼	5	5	- ¼
20	12⅞	Reebok	.30	1.7	11	3383	18¼	17⅞	17⅞	+ ⅛
12⅝	7½	Reece	.05j			7	7⅝	7⅝	7⅝	- ¼
½	5-32	Regal				27	11-32	5-16	5-16	- 1-32
16⅝	10	ReichTg	1.52	14.	6	28	10⅝	10⅝	10⅝	+ ⅛
8⅝	4⅞	RelGrp	.32	6.7	141	90	5⅛	5⅛	5⅛	
25⅞	18¼	Repsol n	.86e	3.3		1669	u26¼	25⅞	26⅛	+ ⅛
5⅞	3⅞	RepGyp	.19r	4.8	31	51	4⅛	4	4	
37⅞	42½	RepNY	1.32	2.8	341	453	48¼	47¼	47¼	- ⅛
11⅝	1⅞	Rvere				205	2⅝	2½	2½	- ⅛
27⅞	18¼	ReyRey	.80	4.0	9	279	20⅞	20	20⅛	- ⅛
62	48½	ReyMtl	1.80	2.9	7	2381	62	60⅞	61½	- ⅜
19	14⅞	RhP pfA				11	17⅞	17⅞	17⅞	- ⅛
3½	1⅞	RhmP wt				45	2⅛	2⅝	2⅛	+ ⅛
22	16½	RhmPl n				98	20	19⅞	20	
41⅞	29½	RiteAid	.80	2.6	14	1798	34⅛	33⅝	34	+ ⅛
11-32	3-64	RvrOak				137	5-64	1-16	5-64	+ 1-64
19¼	14½	RobHff			13	21	15⅛	15	15	- ⅛
14⅝	8¼	Robtsn			28	217	10⅛	10⅛	10⅛	- ⅛
22⅛	17½	RochG	1.56	8.2	10	385	19⅛	19	19	- ⅛
45⅞	29⅞	RochTl	s1.46	4.5	17	78	32½	32	32⅛	+ ⅛
22⅝	17⅞	RckCtr	1.48	10	16	339	18	17⅞	18	+ ⅛
[illegible]										
19	7⅞	ZenithE				1409	8⅛	7⅞	7⅞	- ⅛
21½	13½	ZenNtl	.88	5.9	9	62	15¼	15	15	
9⅝	5⅞	Zenix	.90	15.		119	6⅛	6	6	- ⅛
18½	12⅞	Zero s	.40	2.9	14	326	14⅛	14	14	- ⅛
50⅝	34⅝	Zurnin	.76	1.5	22	702	50	49⅞	49⅞	- ⅝
12⅝	10⅝	Zweig	1.21e	11.		395	11⅛	11⅛	11⅛	- ⅛
10	9	ZweigTl	.96	11.		1136	9⅛	9⅛	9⅛	- ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices July 10

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Presd A	.10		58	6¾	6⅝	6⅝	
PreCom			149	3⅞	3¼	3¼	- ⅛
Prism		10	10	3⅛	3⅛	3⅛	- ⅛
[illegible]							

NASDAQ NATIONAL MARKET

2pm prices July 10

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						
WvExp		823	7½	7⅛	7½	+ ⅛
Wolv wt		100	3⅛	3⅛	3⅛	
Worthg	.50	17 356	24⅛	23¾	23¾	
Wyman	.80	52	13⅝	13½	13½	- ⅛
-X-Y-Z-						
XL Dta		9 530	16⅛	16⅛	15⅛	+ ⅛
XOMA		8792	23½	22½	23½	+ 1⅛
Xicor		476	3⅛	3	3⅛	+ ⅛
YanEnS	1.52e	12 61	19½	19	19½	+ ⅛
YelowF	.76	50 264	27⅛	27⅛	27⅛	
YorkRs		24 2342	16½	15⅝	16½	+ ⅛
ZionUt	1.44	8 11	27⅞	27½	27⅞	+ ⅛

AMERICA

Dow tumbles in wake of late programme selling

Wall Street

HESITATION ahead of the deluge of corporate results expected at the start of next week kept equity prices modestly lower yesterday until a late round of futures-related programme selling sent stocks tumbling in the last hour, *writes Karen Zagor in New York*.

The Dow Jones Industrial Average was quoted 23.27 lower at 2,890.84. Volume on the New York Stock Exchange was moderate, with 148.8m shares changing hands. On the big board, declining issues led those advancing by 968 to 540. On Monday, the Dow closed up 9.16 points at 2,914.11.

Pitney Bowes plummeted $6⅝ to $43⅞ in active trading after the company said it expects to report a slight decline in second quarter net earnings. Analysts had expected earnings to grow in those three months.

International Paper added $⅞ to $52⅛ after reporting second quarter earnings that were at the high end of analysts' expectations. Technology issues moved higher yesterday morning in spite of the overall weakness in equities, whereas blue chip stocks were mixed.

Du Pont added $⅛ to $37⅝ after chemical industry analysts were reported to have praised the company's management and said that the stock is undervalued.

Marshall Industries gained $⅜ to $28⅞ after estimating that its fourth quarter earnings would grow to between 70 cents and 72 cents a share from 50 cents a year earlier.

Airborne Freight fell $⅛ to $24⅞. The company said it expects to report second quarter earnings of 55 cents a share against 31 cents in the year-ago period.

Wal-Mart improved $⅛ to $33⅞ in a second day of heavy trading ahead of tomorrow's release of sales for June.

Dow Jones added $⅞ to $23⅞ in spite of reporting a drop in second quarter net earnings, to 35 cents a share from 48 cents a year earlier.

Oil company issues moved lower. Exxon slipped $⅝ to $46⅞, Mobil lost $⅞ to $60⅞ and Occidental Petroleum fell $⅝ to $25⅞. Crude oil futures for August broke through the $17-a-barrel technical level to $17.07 a barrel, on the heels of a Monday night rally.

In the secondary market, Nike was unchanged at $87⅞ after leaping $7⅞ on Monday. Its fourth quarter earnings of $1.77 a share were better than expected.

Apple Computer rose $⅜ to $47 in active trading after gaining $1⅞ a day earlier. Software Toolworks improved $⅛ to $19⅞ after a 3.85m share secondary offering price of $18.50 a piece.

Xoma was up $2 to $23⅞ after Shearson Lehman Hutton said it expected Xoma to outperform the market by more than 20 percentage points.

Polk Audio fell $⅝ to $9⅞. Polk said it expects first quarter net income to drop sharply from the $210,411 reported a year earlier. Polk, which makes audio speakers, went public in July 1986 at $15.

Lotus Development fell $1⅞ to $32⅞ after an analyst reduced 1991 earnings projections to $3.15 a share from a previous $3.50.

Canada

TORONTO fell for the second consecutive session in light trading. The composite index finished off 12.70 to 3,527.94.

Volume of 18.5m included 2.7m Varity and 1.3m Sherritt Gordon shares. Declines outnumbered advances 327 to 214.

Molson plans a public offering of 4m class A shares at C$37.625 each, and C$150m of one-year floating-rate redeemable debentures. Its A and B shares each fell C$1⅞ to C$37.

Ivaco's A shares lost C$1⅛ to C$8⅞. It plans offers for all of its outstanding series 1 and series 2 convertible preferred shares in exchange for class A shares. Ivaco's series 1 preferred E shares gained C$1⅞ to C$13⅞, and its series 3 preferred G fell C$⅛ to C$14⅞.

ASIA PACIFIC

Nikkei falls on rumour of early discount rate rise

Tokyo

EQUITIES FELL yesterday as investors reacted strongly to a rumour that the central bank would soon raise the official discount rate, *writes Martina Gannon in Tokyo*.

Prices edged down in the morning, but the rumour accelerated the decline late in the day, bringing the Nikkei average down 386.85 to finish at the day's low of 32,152.43. The high, shortly after the opening, was 32,552.90.

Declines overwhelmed advances by 727 to 220, with 171 unchanged. Turnover slipped from 400m shares to 350m. The Topix index of all first-section stocks dropped 24.64 to end at 2,337.77, and the second section, which had risen steadily for the past six trading days, changed tack to finish down 10.05 at 4,387.67. In London, the ISE/Nikkei 50 index rose 1.89 to 1,744.76.

In a marked change from Monday, there was very little arbitrage trading. The uncertainty over interest rates and the level of the yen, which has dominated the stock market recently, persisted and contributed to an easier bond market.

The lack of any other news gave the official discount rate rumour added importance, said Mr Julian Jones at WI Carr. "There was over-reaction to the story but, in the current climate, it appears that any rumour will shake up the market," he said.

Speculative issues were bought early on but lost ground later. Those included Honshu Paper which, despite its p/e ratio of over 350 and an expected 21 per cent decline in pre-tax profits in the year ending March 1991, rose during the morning session. It later closed down Y10 at Y2,930.

Big steels, shipbuildings, electricals, trading companies and city banks were hit by profit-taking. Sumitomo Metal Mining, which announced it will issue Y100bn of Eurodollar and yen warrant bonds soon, declined Y30 to Y1,420. Pharmaceuticals and high-tech issues, which had held steady earlier, fell in the afternoon.

The few stocks sought out by buyers included those related to public works. They have been popular since the Japanese Government pledged Y450trn in public spending over the next 10 years during the Structural Impediments Initiative talks with the US. At least Y200trn of that sum is expected to be channelled into housing and sewerage systems.

Sasaki Glass, a leading manufacturer of glass tableware and crystal and the morning's most heavily-traded issue, went up Y120 to Y1,300. Amada, a major metalworking machine maker, added Y30 to Y1,830. Toshiba Ceramics rose Y40 to Y1,210 and Takara Standard, which makes kitchen and bathroom systems as well as being the country's leading barber's chair manufacturer, went up Y10 to Y1,260.

In Osaka, the OSE average eased on light trading volume of 37m shares, compared with 48m on Monday. It ended at 35,851.84, down 114.73.

Roundup

CURRENCY movements dominated the Antipodean markets yesterday, while an unsuccessful flotation of a shipping stock weighed on Singapore.

NEW ZEALAND jumped as a sharp fall in its currency against the Australian dollar triggered arbitrage buying of dual-listed stocks. The Barclays index closed 26.58 higher at 1,839.56, its highest level in six months. Turnover rose to 15.2m shares or NZ$38.2m from 15.6m or NZ$26.2m.

AUSTRALIA took a breather after its recent rally. A rise in the Australian dollar weighed on mining stocks. The All Ordinaries index eased 5.6 to 1,581.2. Turnover fell to 104m shares or A$282m from 117m or A$288m. Banks accounted for about one-third of the total market turnover, due to option-related activity.

SINGAPORE was disappointed by the debut of Pacific Carriers. The shares ended only 1 cent above the offer price of S$1.70, having fetched up to S$2.05 in the grey market. The Straits Times index lost 9.04 to 1,523.46. Volume rose to 59.7m shares or S$150.2m, from 41.3m or S$113.1m.

TAIWAN saw a hefty recovery in banks and cement makers. The weighted index rose 300.21, or 6.02 per cent, to 5,286.61. Volume rose to 1.47bn shares or NT$72.7bn from 1.22bn or NT$55.3bn.

SEOUL rose as buying by the stabilisation fund overcame individual selling. The composite index added 3.47 to 718.75 on slow volume WON83.7bn after WON83.1bn. However, news that the money supply grew 23 per cent in the first half of 1990, the fastest growth in eight years, raised fears of further tightening in monetary policy.

HONG KONG saw overseas investors snap up laggards. The Hang Seng index added 23.01 to 3,408.16. Turnover rose to HK$2.13bn from HK$1.86bn.

KUALA LUMPUR was quiet before the elections in the east Malaysian state of Sabah. The composite index rose 0.39 to 592.57 and turnover slipped to 25.6m shares from 28.6m.

BANGKOK fell ahead of a no-confidence debate in Parliament later this week. The official SET index fell 18.06 to 1,032.07.

Helsinki labours to break a vicious circle

Enrique Tessieri looks at a market hit by austerity budgets and shrinking turnover

FINNISH stockbrokers are keeping busy this summer by debating what can be done to revive the small, and recently sliding, Helsinki Stock Exchange.

Some are convinced that when an about-turn comes, the upswing will be strong. But for the time being, Helsinki seems to be in a vicious circle.

The Unitas all-share index peaked at 815.8 in April 1989, bottomed at 580.8 last November and staged a short-lived recovery to a 1990 high of 677.3 on January 22. It then resumed its decline, falling below 600 in mid-April and hitting a 1990 low of 537.0 last Thursday in painfully low volume of a little over FM10m ($2.6m).

Stock exchange turnover figures for the first six months of 1990 offer little hope: business in shares and subscription rights has halved to FM10.2bn from the same period last year, while total turnover has fallen 46 per cent to FM12.7bn.

"The summer is usually a quiet period. However, budget and wage negotiations which will take place this autumn have spurred an atmosphere of uncertainty," says Mr Timo Ronkainen, an analyst for Unitas, Finland's largest stockbroking house.

Observers say the Government will persevere with a tight budget next year, to continue cooling down the economy. Finance Minister Matti Louekoski has said next year's Budget will aim at building a surplus with zero real growth in Government expenditure.

But this year's wage stabilisation agreement, which allows for purchasing power to increase in two years by 4.5 per cent, will have used up roughly 3.5 percentage points of that by March 1991. The remaining 1 per cent increase will undoubtedly create problems between the unions and the Government in 1991-92.

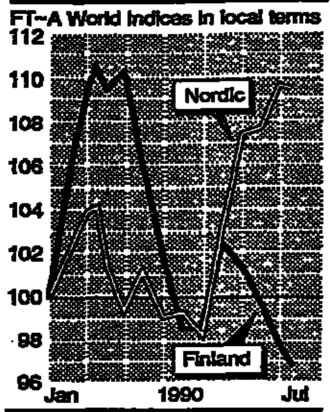
Poor corporate results have also dampened activity. "Investors are also waiting to see the next season of interim results, which will be out in October," Mr Ronkainen says.

Mr Raul Lardot at Seitin, the Helsinki brokers, believes that the Government is winning the battle with inflation, which rose from 5.1 per cent in 1988 to 6.5 per cent in 1989. Estimates for this year put inflation between 5.5 to 6 per cent.

"I don't want to give you an overly pessimistic view of the Finnish economy," he says, "but there are a lot of importers with large stocks of unsold goods. Many people do not understand that the boom years of 1987-88 are over and that consumption, and subsequently prices, will fall."

A turning point could occur by March 1991, when elections are due. "Low share prices with respect to assets, better economic news, the lifting of restrictions on foreigners from investing in Finnish funds and the ongoing restructuring of the Finnish economy will be positive factors for the market," Mr Lardot says.

Parliament is expected pass a law this autumn allowing foreigners as of January 1, 1991 to take part in domestic investment funds. Currently they can only buy "free" shares. But even if foreigners can own restricted shares in the future, this will not entitle them to direct ownership or voting rights in Finnish companies.



THE NORDIC index inched ahead in June, although only one of the four markets, Stockholm, experienced a rise, according to statistics compiled by the Oslo bourse on behalf of the four Nordic exchanges, writes Karen Fossli in Oslo.

The index rose 1.4 per cent last month after 7.7 per cent in May, bringing its advance this year to 5.2 per cent. In June, Stockholm rose 4.1 per cent, while Helsinki fell 10.2 per cent, Oslo eased 4.5 per cent and Copenhagen lost 0.1 per cent. Stockholm was helped by a decline in interest rates, which prompted domestic investors to focus on the home market.

Copenhagen, which was helped by a cut in interest rates and an improvement in Denmark's trade balance to hit a record on the CSE index in mid-June, was the most liquid of the Nordic bourses last month, turning over 29.4 per cent of its market capitalisation. Stockholm had the highest turnover in June at $1.328bn, although this was down from $1.831bn in May. The combined turnover of Nordic stocks was $3.316bn last month, versus $4.923bn in May.

EUROPE

Corporate earnings prospects hit bourses

CONTINENTAL earnings prospects are not what they were, and one or two bourses are beginning to reflect this, *writes Our Markets Staff*.

MILAN tumbled as Fiat was heavily sold following publication of car industry data on Monday which showed that its grip on the domestic car market had weakened in June. This news came hard on the heels of a 1990 profit warning by the chairman, Mr Giovanni Agnelli. Fiat skidded L325 or 3.4 per cent to L9,265 in spite of company purchasing under its buy-back programme, and the Comit index fell 9.22 to 720.66.

The gloomy 1990 outlook for Fiat has prompted Mr John Longhurst of James Capel to downgrade his 1990 profit forecast to L3trn, from a previous estimate of L3.4trn, after L3.3trn in 1989. This translates into EPS of L1,235 in 1990 after L1,415 in 1989.

FRANKFURT ran into more profit-taking following last week's reunification euphoria, when it rose by 2.7 per cent. The FAZ index fell 9.05 to 807.18 at midsession and the DAX dipped below 1,900 at the same time, recovering to close 14.23 lower at 1,909.63.

Mr Werner Wanke, head of securities at B Metzler in Frankfurt, noted that the Bundesbank had been tightening money supply in the face of rising consumer spending; money market rates have stiffened, and profit-taking has come to the bond market where the average bond yield rose again from 8.79 to 8.83 per cent, seven basis points above last Friday's level.

Metzler has called West German equities a "whipsaw" market, indicating a fair amount of action but no clear trend. "Last week," notes Mr Wanke, "volume on the upside was not enough to justify an extended uptrend; Frankfurt was getting volumes of a fraction over DM4bn against the DM7bn to DM8bn it saw in the good times." Yesterday, volume across the country fell to DM5.6bn from DM6.6bn.

Declines came across the board, from carmakers and engineers, through utilities to department stores; however, the laggards were slow on the downside too, with Hoechst DM1 lower at DM267, BASF just 30 pfg down at DM269 and Bayer unchanged at DM282.

The biggest rise of the day came from the software company, SAP, after it said it had begun the year with a 38 per cent rise in sales; the shares rose DM24 to DM1,988.

PARIS fell 1.4 per cent in thin trading, with blue chips leading the descent. The CAC 40 index dropped through the 1,970 resistance level to 1,963.02, down 27.15, in turnover estimated at FFr1.5bn.

One of the biggest falls was by Accor, the hotels group, which ended FFr45, or 4.3 per cent, lower at FFr1,010, after hitting FFr997, on rumours that leading analysts were reducing their profits forecasts. "The market is too nervous to take any more earnings downgrades lightly," said Ms Lorna Statham, an analyst at Citicorp, pointing also to a further FFr10 fall in Peugeot to FFr722 on profits worries.

Among the session's most active losers, Lafarge Coppée lost FFr18.50 to FFr447.

Lyonnaise des Eaux, the water utility, and Dumez, the construction group, remained suspended. After the market closed, they announced that they would examine merger plans this morning. The terms of the deal were expected to favour Dumez shareholders; French authorities are investigating the sharp rise in the Dumez share price in active trading last week.

One of the few big gains was by Valeo, the motor components maker, which rose FFr33 to FFr564 after Monday's small upward revision of its first-half revenue and on plans to invest in seven new plants.

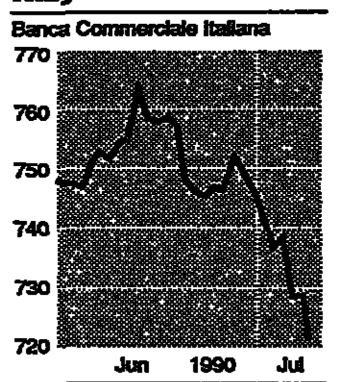
MADRID advanced again on demand for banks and on optimism about inflation figures, due tomorrow. The general index closed at 302.77, up 1.93 but below 303.18, its level at the end of the open outcry session. Banesto was strong again, rising Pta235 to Pta4,505, although finishing off its day's high of Pta4,535, and Bankinter gained Pta370 to Pta9,490.

AMSTERDAM watched Philips fall another Fl 1.10 to Fl 28.60, as investors bailed out on widespread talk that it would not pay out a dividend on 1990 results. The CBS tendency index lost 0.7 to 119.7.

Elsewhere, Ahold, the retailer, was suspended at Monday's closing price of Fl 143.10. Amro Bank said later that a banking syndicate had concluded a private placement of a 13.1 per cent stake in Ahold, formerly held by Asko of West Germany, at Fl 141.60 a share. Trading in Ahold shares is due to resume today.

OSLO closed higher across the board after Norway's Central Bureau of Statistics reported lower-than-expected June consumer price growth of 0.3 per cent; the figure is currently 3.6 per cent per annum. The all-share index rose 7.59 to 624.50, in turnover of NKr272m; the industry index, which includes oil stocks, put on 9.69 to 843.44 and the shipping index 15.67 to 894.34.

BRUSSELS saw Barco, the video screen maker, bounce back after Monday's sell-off. The stock recouped Monday's losses to close BFr105 better at BFr2,190 after the company said that first-half earnings would match those of a year earlier. The cash market index fell 9.04 to 6,235.13.



SOUTH AFRICA

GOLD shares closed sharply lower on another slump in the bullion price to a low of $352 an ounce, amid reports of renewed Middle East selling. The JSE all-gold index dropped 63 to 1,463 and the overall index by 52 to 3,026.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY JULY 10 1990								MONDAY JULY 9 1990					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)
Australia (80)	152.33	+0.5	124.40	143.33	130.44	125.23	−0.4	5.56	151.65	124.53	144.79	130.05	125.78	158.31	125.85	134.59
Austria (19)	265.13	+0.4	216.51	249.48	227.02	226.07	+0.1	1.28	264.09	216.86	252.16	226.48	225.87	285.63	193.15	125.49
Belgium (61)	152.07	+0.1	124.18	143.07	130.21	128.76	−0.2	4.57	151.97	124.79	145.09	130.32	127.04	160.02	132.11	133.99
Canada (119)	137.73	−0.1	112.47	129.58	117.93	115.44	−0.2	3.51	137.88	113.22	131.64	118.23	115.72	153.61	130.37	143.36
Denmark (33)	261.55	−0.1	213.59	246.10	223.96	222.33	−0.5	1.30	261.91	215.07	250.08	224.60	223.35	262.92	236.69	217.32
Finland (26)	135.73	+0.1	110.84	127.72	116.22	109.26	−0.3	2.51	135.60	111.34	129.47	116.28	109.57	152.29	129.99	144.24
France (124)	157.11	−1.0	128.30	147.82	134.52	136.22	−1.1	3.01	158.68	130.30	151.50	136.07	137.77	168.85	141.69	125.83
West Germany (92)	137.44	−1.0	112.24	129.34	117.68	117.68	−1.1	1.90	138.82	113.99	132.56	119.04	119.04	138.82	122.05	93.64
Hong Kong (46)	141.96	+0.8	115.93	133.57	121.58	141.56	+0.7	4.43	140.90	115.70	134.53	120.84	140.60	141.96	112.24	102.85
Ireland (17)	189.85	−0.4	155.04	178.63	162.56	164.07	−0.5	2.67	190.57	156.49	181.96	163.43	164.94	198.57	172.72	142.15
Italy (96)	103.93	−1.3	84.88	97.79	88.99	93.65	−1.4	2.51	105.27	86.44	100.50	90.27	95.01	109.26	91.85	89.95
Japan (454)	149.88	+0.3	122.39	141.02	128.35	141.02	−1.2	0.60	149.43	122.71	142.68	128.17	142.68	197.26	124.40	180.70
Malaysia (35)	236.29	+0.4	192.96	222.32	202.32	245.80	+0.2	2.21	235.45	193.34	224.80	201.91	245.24	245.32	204.15	186.82
Mexico (13)	502.14	−0.2	410.06	472.46	429.97	1575.11	−0.1	0.33	503.14	413.15	480.40	431.48	1576.05	549.86	324.53	277.40
Netherland (43)	140.91	−0.5	115.07	132.59	120.66	119.30	−0.6	4.72	141.55	116.24	135.16	121.40	120.01	145.66	130.43	123.93
New Zealand (17)	67.96	+1.9	55.50	63.95	58.20	60.76	+1.5	7.22	66.70	54.77	63.69	57.21	59.88	75.36	59.57	66.99
Norway (23)	242.17	+1.6	197.76	227.87	207.37	207.00	+1.2	1.53	238.36	195.73	227.59	204.41	204.47	245.90	202.34	192.75
Singapore (25)	203.99	+0.4	166.59	191.94	174.67	170.76	+0.1	2.03	203.22	166.87	194.04	174.27	170.58	207.93	179.70	164.26
South Africa (60)	175.17	−1.7	143.05	164.82	149.99	153.47	−1.9	3.88	178.25	146.37	170.19	152.85	158.47	251.39	170.00	151.61
Spain (42)	177.54	+0.7	144.99	167.06	152.02	135.65	+0.6	4.03	176.26	144.74	168.30	151.16	134.80	177.54	132.84	153.75
Sweden (34)	231.67	+0.0	189.18	217.98	198.37	204.14	−0.2	1.98	231.75	190.30	221.28	198.75	204.56	232.74	173.89	174.74
Switzerland (67)	108.67	−0.2	88.74	102.26	93.07	94.05	−0.1	2.20	108.90	89.42	103.99	93.40	94.18	108.90	88.75	85.22
United Kingdom (304)	170.83	+0.1	139.50	160.71	146.26	139.50	−0.4	4.88	170.65	140.13	162.92	146.33	140.13	170.83	139.87	151.07
USA (539)	144.21	−0.8	117.77	135.70	123.49	144.21	−0.8	3.36	145.35	119.35	138.78	124.65	145.35	148.55	130.61	133.98
Europe (981)	152.68	−0.3	124.66	143.64	130.72	127.69	−0.6	3.60	153.17	125.78	146.25	131.38	128.50	153.43	135.57	125.74
Nordic (116)	214.42	+0.1	175.10	201.75	183.60	178.07	−0.1	1.70	214.17	175.86	204.49	183.66	178.32	214.73	185.01	172.57
Pacific Basin (659)	149.55	+0.3	122.13	140.71	128.06	140.16	−1.1	0.92	149.07	122.41	142.34	127.84	141.68	192.75	124.63	176.01
Euro−Pacific (1640)	151.21	+0.0	123.48	142.28	129.47	135.70	−0.9	2.02	151.14	124.11	144.30	129.61	136.92	174.18	130.35	156.01
North America (658)	143.72	−0.7	117.37	135.24	123.09	142.30	−0.7	3.37	144.80	118.90	138.27	124.19	143.38	147.87	131.02	134.44
Europe Ex. UK (677)	140.25	−0.6	114.54	131.99	120.12	120.19	−0.8	2.76	141.14	115.89	134.78	121.06	121.11	141.78	124.81	109.76
Pacific Ex. Japan (205)	144.80	+0.6	118.25	136.27	124.00	126.74	+0.1	4.85	143.93	118.19	137.44	123.44	126.63	144.80	122.53	119.87
World Ex. US (1832)	151.20	+0.0	123.47	142.27	129.47	135.57	−0.9	2.06	151.16	124.13	144.34	129.64	136.77	173.77	131.30	155.60
World Ex. UK (2067)	146.33	−0.3	118.68	136.75	124.46	138.21	−0.9	2.24	145.76	119.69	139.18	125.01	139.45	162.00	130.80	146.44
World Ex. So. Af. (2311)	147.42	−0.2	120.39	138.72	126.25	138.18	−0.8	2.51	147.79	121.35	141.11	126.74	139.35	161.84	131.95	146.81
World Ex. Japan (1917)	147.88	−0.5	120.76	139.16	126.65	137.06	−0.7	3.52	148.67	122.08	141.97	127.52	138.00	148.81	134.62	130.88
The World Index (2371)	147.59	−0.2	120.53	138.88	126.39	138.29	−0.8	2.52	147.96	121.50	141.28	126.90	139.47	162.05	132.25	146.84

FINANCIAL TIMES SURVEY

WATER INDUSTRY

SECTION III

Wednesday July 11 1990

After successfully negotiating the hazards of privatisation, the water industry is now attempting to bring the quality of its product into line with EC standards. **Richard Evans** sums up progress since the watershed of flotation and examines the sector's prospects

Ready for a clean sweep

SIX MONTHS after successfully surmounting the watershed of flotation, the water industry of England and Wales is now safely into the private sector, but there are few signs that the storms ahead will be any less turbulent.

The predominant feeling within the industry is one of immense relief that the controversial, tortuous and time-consuming process of privatisation is over, linked with a hope that the industry will now be allowed to get on with its primary task of completing the investment programme to bring water quality up to scratch.

It has been a long haul since privatisation was first mooted early in 1985, following a series of conflicts between industry leaders and the Department of the Environment over lack of capital funding and Government interference with charging and investment policies.

Now, five years later and after two White Papers, one of the longest and most complex bills ever to reach the Statute Book, the appointment and transfer of five ministers with responsibility for the industry, and a running barrage of controversy and criticism, the industry has finally left the haven of public ownership.

To the opponents of privatisation, the whole process has been nothing less than a cynical political operation, turning a public monopoly into a private one, and driving up costs and charges to the benefit of the shareholder rather than the customer.

But to the advocates of privatisation, the benefits are immediate and potentially immense, particularly the identification of investment needs for the next decade and the drafting of proper arrangements to finance these needs.

In addition, there has been release from Treasury constraints and the removal of political interference, the freeing of a sense of initiative within the companies, and the development of a change culture in favour of the customer.

So, how is privatisation working out? The answer must be "so far, so good" but a proper judgment is inevitably some way off.

The first company results since flotation, which have been trickling out over the last six weeks, have been fairly meaningless, as all that has happened over the period to the end of March is that the companies have been recapitalised and transferred to the private sector.

The most important question is how well they will handle their big capital spending programmes totalling £24bn, and here, too, it will be another year at least before an initial assessment can be made.

All the companies have unveiled as expected, slightly higher pre-tax profits than promised in their flotation prospectuses last November. The only flurry of excitement during the reporting season came when Mr Roy Watts, chairman of Thames Water, the biggest of the 10 and the one keenest to be the industry's pace-setter, announced a dividend payment 3.6 per cent higher than forecast.

What is not in doubt are the problems the bulk of the industry has inherited after 100 years of public ownership, largely because of the failure of successive governments, *Labour as well as Conservative*, to authorise the necessary investment to modernise the creaking infrastructure and to improve water quality.

Thus, on privatisation, drinking water did not meet European Community requirements in many parts of the country although it remained perfectly safe to drink, there were limited but serious deficiencies in meeting important standards like nitrates, over a fifth of sewage treatment works failed to meet their legal standards, and nearly half the bathing waters designated under an EC directive failed to meet requirements.

Now the excuse of lack of resources has gone. Investment needs have been identified and price limits set to achieve spending targets and to pay for the necessary improvements in the water system and in water quality.

The industry's ability to manage the capital programme prudently is helped by strong initial capital structures reflecting the Government's write-off of virtually all debt, generous "green dowry" cash injections, a favourable tariff-setting formula based on a K factor above the level of inflation, and large capital allowances which will result in minimum tax liabilities for at least the next decade. Nevertheless,

increasing concern is being expressed by some water industry chiefs about the cost to the consumer of some of the environmental initiatives the European Commission and the Government appear keen on introducing.

Full implementation of the EC waste water directive in its present form would cost around £4.5bn, making a total of at least £7bn when the additional costs of stopping disposal of sewage sludge at sea by 1998 and the adding of primary treatment to long sea outfalls are taken into account.

Mr Chris Patten, Environment Secretary, is also under heavy pressure from environmental groups and from Lord Crickhowell, chairman of the National Rivers Authority, the industry's environment regulator, to introduce some form of secondary treatment for all inland sewage works.

Mr Ian Byatt, the industry's economic regulator as director general of water services (Ofwat), argues that since it will be customers who have to pay for these and other improvements, it is important for environmental decisions to be properly costed before they are taken so that the consequences for people's bills are known.

One of the early fears of the industry was that the companies would be severely over-regulated, with constraints coming from too many sources. So far, however, although the regulators have started robustly, the relationships appear to be good.

Lord Crickhowell, chairman of the National Rivers Authority, the environment regulator, has been the most active because of the nature of the environment protection role and because the NRA is staffed by former water authority personnel who know the system well.

Mr Byatt's ability to stamp his personality on the industry has been more limited so far, because the role of economic regulator has to take into account the long-term nature of the water industry.

One of his early tasks will be to launch a public debate in the autumn about alternative methods of charging for water.

The system of charging based on rateable values has to be phased out by the year 2000, and each company will have to decide how it wants to charge in the future.

The most likely options are metering or some form of standing charge or licence fee, but both have their drawbacks. Decisions will await the outcome of a series of metering trials now under way.

Another possible cloud on the horizon is the attitude of any future Labour government towards the industry and its ownership.

Party leaders like Mr Bryan Gould, shadow environment secretary, and Mrs Ann Taylor, water industry spokesperson, have given clear indications that Labour would take water back into some form of public ownership, but both the method and the timing is unclear.

There is a growing assumption that although the return of the industry to public ownership is certain to be in a Labour election manifesto, it will not be a high priority given the range of programmes the leadership will want to implement after so many years out of office.

Similarly long-term issues concerning industry leaders are the role of the French, and the part diversification should play in the strategy of the companies. French interest in the UK water industry, as demonstrated by a large number of acquisitions and shareholdings among the 29 statutory water companies and significant stakes in some of the privatised companies, is here to stay.

The full impact of the French presence might not be clear for some time, however, given the immediate need for consolidation and the barriers against further takeovers.

IN THIS SURVEY

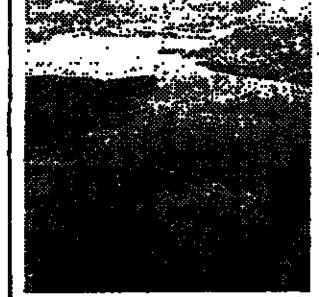
North West Water's new £50m Sandon Dock complex which will provide Liverpool with its first sewage treatment works

■ Andrew Hill analyses results of the 10 big water companies and lifts the veil from the 29 smaller companies ....Page 2

■ The cost of going green is beginning to affect companies around the world. Andrew Hill compares international practices and investigates the so-called French invasion in the UK ....Page 3

■ Elisabeth Tacey looks at doubts the suppliers have about the investment programme and says trouble is bubbling up below the surface over quality controls .... Page 4

■ The two water regulators, Lord Crickhowell and Ian Byatt, are not office-bound figureheads, says Andrew Hill, who assesses their impact on the industry. Richard Evans discusses future charging policies ....Page 5

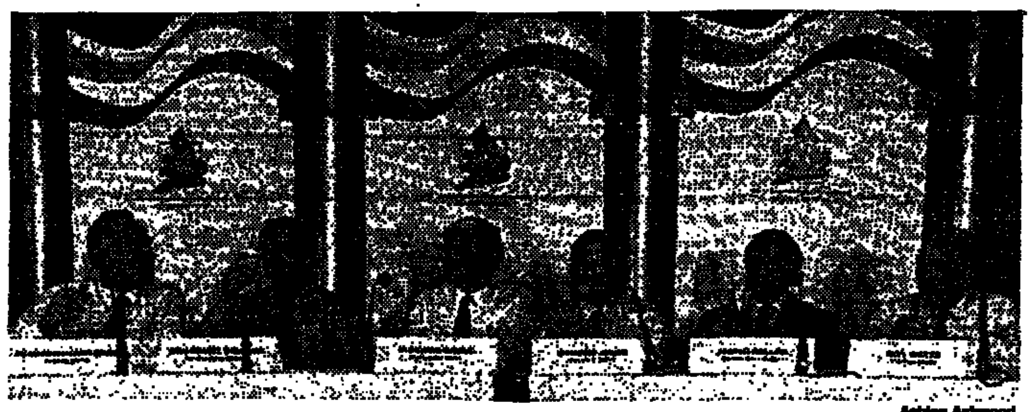


Man-made: bird's eye view of Northumbria's Kielder Water

■ Richard Evans talks to Bernard Henderson, chairman of the Water Services Association, and investigates environmental issues ....Page 6

Editorial production: Roy Terry

Results of the 10 water companies analysed by Andrew Hill



Ashley Ashwood

Water chairmen: (from left to right) Bernard Henderson (Anglian), Sir Michael Straker (Northumbrian), Dennis Grove (North West), Sir Gordon Jones (Yorkshire), John Bellak (Severn Trent) and Roy Watts (Thames)

All profits are taken before tax for the year to March 31, 1990. Prospectus profit forecasts in brackets. Pro forma profits assume the industry's new capital structure was in place from April 1, 1989.

North West

NORTH WEST and Thames are the only water companies to have been admitted to the FT-SE 100 Index so far. It is big, but then so is its capital expenditure programme, which is estimated at £4.28bn for the next 10 years. Initial evidence seems to indicate that the group is keeping a tight hold on its operating costs, with the help of its new chief executive Bob Thian, who joined North West just before flotation. Compagnie Générale des Eaux, France's largest water supplier, owns 2.3 per cent of the shares. 1989-90 profit: £75m (£70m). Pro forma: £177m (£172m).

Thames

LARGEST of the 10, Thames inevitably has the highest profile simply because of its size and geographical location. As an FT-SE 100 stock its every move will be scrutinised by the stock market. As if to underline its prominence, Thames was the only company to recommend a 1989-90 dividend higher than the forecast in the flotation prospectus. The group was initially very keen to add diversified operations to the core water business, but its non-core ambitions have been played down somewhat since flotation. That said, Thames's aggressive management is unlikely to hold back for long. 1989-90 profit: £179m (£170m). Pro forma: £187m (£178m).

South West

PLAGUED by pollution problems in the run-up to privatisation, South West was initially condemned by some observers as the lame duck of the 10. However, it was given a boost by the Government with a high dividend yield and a large cash injection at flotation. The recent results showed that a comparatively new management had not been thrown off-balance by the bad publicity. South West has eased its water supply problems with a new reservoir, but will be watched carefully for the way it manages a capital expenditure programme which is one of the largest relative to size. 1989-90 profit: £45.3m (£44.5m). Pro forma: £82.8m (£82m).

Anglian

FROM the stock market's point of view, Anglian is an interesting amalgam of all the current industry issues. It has a long coastline, some of it in breach of European Community pollution regulations, a French company – Lyonnaise des Eaux – owns a 9 per cent stake, and it recently became the first UK water company to tap the sterling bond market with a £100m issue of loan stock. That should mean strong continuing interest in the stock, which is already attracting careful investors because of Anglian's conservative attitude towards diversification. 1989-90 profit: £86.1m (£83m). Pro forma: £139m (£136m).

Severn Trent

SEVERN TRENT pushed itself forward strongly before privatisation, rivalling Thames for public relations efforts, but a low flotation yield rather took the shine off the performance of the group's share price. Severn Trent is now likely to play up its more lasting strengths, and play down its initial bullishness about diversification plans. The company has a heavy capital expenditure programme to handle, the bulk of it falling in the first five years, so its results will come under particularly close scrutiny, not least from the two French shareholders. 1989-90 profit: £130m (£121m). Pro forma: £217m (£208m).

Welsh

WELSH – and perhaps Yorkshire – probably have the strongest local following of the 10 water companies. In the case of Welsh, this is backed up by articles of association which will protect the company from takeover beyond the five-year life of the Government's "golden share". Welsh-speaking chairman, John Elfed Jones, hopes his company can capitalise on the region's economic good fortune by using existing infrastructure to supply new businesses. The group also looks well-placed to achieve cost savings over the next few years. 1989-90 profit: £39.5m (£24.9m). Pro forma: £97m (£93m).

Yorkshire

DESPITE the existence of a regional grid linking rivers, reservoirs and groundwater sources, Yorkshire still had to impose restrictions on water use to cope with the 1989-90 drought. In general, however, it should relieve Yorkshire of any need to develop big new water resources. That will leave it free to concentrate on extracting further efficiencies from the core business, where it already has a strong cost-cutting reputation, and to promote a range of diversified businesses. These will grow from expertise in the basic water operations and are unlikely to upset the City. 1989-90 profit: £57.7m (£54m). Pro forma: £101m (£98m).

Ashley Ashwood

Water chairmen: (from left to right) William Courtney (Southern), Keith Court (South West), John Elfed Jones (Welsh) and Nicholas Hood (Wessex)

Wessex

WESSEX attracted the attention of a French investor early in its privatised career. Lyonnaise des Eaux said at the time it regarded its 6 per cent stake as something of a venture capital investment in a small water company with a fine reputation for high-tech developments. However, Wessex also has to cope with the rigours of a relatively large capital expenditure programme, and the fact that a large number of its customers buy their water supply from statutory water companies. Investors will be alive to any shifts in the balance of ownership. 1989-90 profit: £27m (£25m). Pro forma: £56.5m (£54.5m).

Northumbrian

NORTHUMBRIAN, smallest of the 10 privatised companies, brought in its capital expenditure programme about 8 per cent under budget in 1989-90. That may not be particularly significant as it is only a fraction of a 10-year spending plan, but it has polished Northumbrian's image for cost-saving. The group will have no problem with water supply, given that the massive Kielder reservoir is part of its region, and investors are beginning to look at Northumbrian's fundamental qualities now that speculation on possible French investment has begun to evaporate. 1989-90 profits: £10m (£5.5m). Pro forma: £54.8m (£50.3m).

Southern

LOCATED in the over-crowded, affluent, but comparatively dry south-east of England, Southern has to find new water resources if it is to make the most of its other advantages. Meanwhile, it has a portfolio of so-called "enterprise" companies, which include a joint venture with SAUR, the French supplier with a large presence in the region, to tender for refuse collection and cleansing contracts from local authorities. Analysts seem somewhat concerned about higher-than-average increases in wage costs. 1989-90 profits: £60.1m (£57m). Pro forma: £84.1m (£81m).

Andrew Hill on the smaller water suppliers

Still cloaked in mystery

MILLIONS of pounds have been spent in the past 18 months on advertising the 10 former water authorities

The saturation television and poster campaign was considered a success by those who mounted it. It means, at the least, that even people who did not buy shares now know there are 10 water and sewerage businesses in England and Wales. But how many know the difference between Anglian Water (serving 5.4m customers over 27,000 sq km) and *East* Anglian Water (238,000 customers, 1,311 sq km)?

That the UK's 29 small water companies remain a mystery to most people – even the quarter of the population of England and Wales supplied by them – is hardly surprising. Indeed, it may even be a side-effect of last year's Water Act, which was partly intended to eliminate the differences between the UK's 10 publicly-owned water authorities, like Anglian, and the 29 statutory companies such as East Anglian (privately-owned, with dividends and voting rights restricted by individual Acts of Parliament).

But the lack of public awareness has been just one factor making the task of the 29 companies – 15 of which are now controlled by three French water suppliers and the British contractor Biwater – more difficult over the past year. Indeed, at the height of the water authorities' "awareness" campaign last summer, Bristol Waterworks, which is in Wessex Water's area, ran a series of advertisements partly to confirm its shares were *not* going to be sold to the public.

On the face of it, the challenges faced by all 39 water companies are the same. They all have to respond to a new and stringent regulatory regime under the director-general of water services and the National Rivers Authority; they all have to manage a large, long-term capital expenditure programme.

But despite last year's protestations from the statutory water companies that all 39 should be on a level playing field after privatisation, some smaller suppliers might be justified in asking whether they are playing on the same pitch as the 10 former authorities, let alone a level one.

The setting of K factors – the regulatory limit on price rises – was delayed for the 29 smaller water suppliers until after the privatisation of the 10 authorities, creating uncertainty for investors and employees. The Government, unsurprisingly, would neither write off the debts of the companies, which were already in the private sector, nor provide a "green dowry" as a platform for the investment programme.

Government intransigence has caused some bitterness in this poorly-publicised sector of the UK water industry. As John Fooks, chairman of East Surrey Water, said somewhat ruefully when announcing the group's results in May: "Life would have been easier if we'd had those things."

Continuing uncertainty may be one reason why only a handful of companies have sought shareholder approval to convert to public limited company status, thus shaking off voting and dividend restrictions.

Bristol, for example, is likely to keep its statutory company status, while liberalising its dividend policy. That will benefit shareholders but maintain a restrictive voting structure – protection against takeover attempts by, for example, two large French shareholders or even Wessex Water, which recently revealed a 2.35 per cent stake in the company.

But for those that have achieved plc status, the experience has not been entirely happy.

In sharp contrast to the hectic trading in shares of the newly-privatised companies, the illiquid stock of Mid Kent, East Surrey, Sutton District, and York Waterworks has been marked down by dealers. The prices are displayed in a dusty appendix to SEAQ, the Stock Exchange's on-screen computer quotation service, rather than on the same page as the former water authorities.

Mid Kent Holdings was the first statutory water company to become a plc, when it set up a separate quoted holding company last summer. Brian Coleman, the group's managing director, says it has been difficult to explain to some private shareholders that the value of the company's stock – which has dropped steadily – is not dictated by Mid Kent.

Mid Kent was also one of several small water suppliers to complain about the cost, in time and money, of the protracted K negotiations with the Government. In Mid Kent's case the situation has been aggravated by the need to supply information to the Monopolies and Mergers Commission, which has just reported on stake-building in the company.

"It takes a year, we foot the bill and we can't get on with the things we feel we ought to get on with," complains Mr Coleman. Mid Kent estimates it has spent £335,000 retaining advisers over the past year – a drop in the ocean for a former water authority, but an unwelcome burden for a small supplier.

On the other hand, the statutory companies and former statutory companies do seem to be relishing the different disciplines of the new regime. Several, particularly those backed by French expertise, are expanding from the core water supply business, although attempts to merge three statutory companies north of London in the interests of increased efficiency, have been temporarily thwarted by the MMC.

Mid Kent and Bristol Water, though independent, both belong to Gusto (General Utilities Scientific and Technical Organisation), set up by Compagnie Générale des Eaux, the French water supplier, to allow an exchange of data between the nine statutory companies which it owns or in which it has large stakes.

Andrew Hill compares international practices

Green costs begin to bite

CUSTOMERS OF British water companies who are up in arms about the effect of privatisation on water prices might like to discuss such gripes and grouses with their Australian counterparts.

In England and Wales, price regulation will mean an average increase in the cost of water services of about 5 per cent in each of the next 10 years to pay for much-needed capital expenditure. Unforeseen costs – to meet European Community directives on the dumping of sewage sludge, for example – may add to those bills.

But in Melbourne and Sydney, where water rates are already among the highest in the world, consumers were hit by an average 31 per cent increase between July 1988 and July 1989. That was principally a result of increases in property values – used to determine charges in some cities – and attempts to eliminate cross-subsidisation between domestic and commercial sectors. Whatever the reasons, natives of Adelaide and Alice Springs may find it cheaper in future to conform to the national stereotype and drink beer.

Australia topped the international water price survey conducted last year by National Utility Services, which acts as a utility cost consultant for 75,000 commercial and industrial clients worldwide. The survey does not cover domestic water charges and it omits any analysis of the cost of dirty water disposal, but it provides at least a broad comparison of international water prices.

Britain, for example, despite suffering the third highest price rise in 1988-89, was still only ninth in the NUS league table, behind five of its EC counterparts including Italy, where standards are generally much lower. The NUS figures show that in 1988-89, the cost of water in the UK was less than half that in Australia and West Germany.

NUS's 1990 survey should emerge next month. Critics of such analyses point out that comparison is complicated by the varying tariff structures and methods of charging (by metering, property values or flat licence fees, for example) in different countries.

A general appreciation of trends in water pricing, though less helpful, is probably more reliable. According to Andrew Johns, NUS's general sales manager, the group's 1990 survey is likely to show an overall increase in world water prices, partly linked to growing concern about the environment, and a move to eliminate cross-subsidisation. Mr Johns expects the real effect of environmental improvements on water rates – particularly in the EC – to come through in 1991-92. "I think people have been talking about green issues for the last four years – they are only really starting to give the measures teeth now."

Whatever the reasons, natives of Adelaide and Alice Springs may find it cheaper in future to conform to the national stereotype and drink beer

There are indirect links between the way in which countries organise their water supply and the importance of the environmental problems. As secretary-general of Eureau, which represents European water suppliers, Francis Rillaerts takes a broad view of the industry. The fact that northern European countries are in the dock at the European Court of Justice for breaching EC directives is not indicative of lower standards in those countries, he says, but of higher awareness.

British cynics say it took the controversial privatisation process to stimulate awareness that the water industry even existed, let alone that it faced enormous environmental challenges. Francis Rillaerts believes the British experience and the French example – large private water companies competing for municipal contracts – may be taken up elsewhere. "I suppose other countries will move in that direction, but they will not go as fast as the UK," he says.

Such developments are more likely to be on the French model than the British, partly because in most developed countries the water supply is still controlled by municipalities.

Private water companies already operate in Spain, for example, where the French water suppliers have stakes, and Portugal has just modified its legislation to allow private companies to become involved in water supply. Now joint ventures can be established, although 51 per cent of the shares must be held by the local authorities.

But privately-supplied water in Europe is more likely to come from a company which has won a municipal contract, than from companies on the British model which also own the operating assets. In the developing world, the story is slightly different: the large French water companies and some British companies – the private contractor Biwater, for example – have been taking a greater hand in all aspects of water supply, selling their expertise in the design, construction and, increasingly, the operation of water systems.

If nothing else, the privatisation of the UK water authorities has revived international interest in the idea of investing in water – UK water company shares were swallowed gratefully in Japan, the US, Canada and Europe.

France, Britain and the US are still the only countries in the world where it is possible to buy and sell shares in quoted water companies. But in the US, where private water companies serve only about 20 per cent of the population, the excitement of owning water shares is dulled by strict economic and environmental regulation and sluggish dividend and earnings growth.

In the past, international investors with a taste for water have turned instead to the three largest French suppliers – Compagnie Générale des Eaux, Lyonnaise des Eaux and SAUR, a subsidiary of the construction group Bouygues. They had already proved themselves adept at handling the stock market as well as water services in 1988-89, when they bought control of 12 of the UK's 29 smaller statutory water companies.

Two of the French companies – Générale and Lyonnaise – have also revealed small stakes in some of the newly-privatised UK groups.

Once the British companies have found their feet in the private sector they too might start to look to increase their strategic stakes and joint ventures overseas. Several operate international subsidiaries involved in engineering contracts or consultancy work from Mauritius to South East Asia, from West Africa to the Caribbean.

Further expansion would provide additional financial cement for the co-operation between international water companies which has always been a feature of the industry.

The so-called French invasion investigated by Andrew Hill

Boiling waters subside

YOU COULD say that the past 12 months have been somewhat dull for the largest French investors in the UK water industry – at least by the standards of the previous year.

In 1988 and the early part of 1989, Compagnie Générale des Eaux, Lyonnaise des Eaux and SAUR – a subsidiary of the construction group Bouygues – launched 12 successful bids for UK statutory water companies, two of them contested.

They bought large stakes in several other companies and forced the Government to enact legislation obliging the Monopolies and Mergers Commission to investigate any further large bids in the industry.

But since then the boiling waters of the statutory company sector have subsided and almost the only sound has been of French companies digesting the large part of the British water industry they have swallowed.

French companies are used to winning municipal contracts that can last for 25 years or more and have always stressed that they take a longer view than many ordinary investors.

Christine Morin-Postel, the ebullient senior vice-president at Lyonnaise and chairman of Lyonnaise UK, points out that it is only proper to take time developing assets in a long-term industry. "At the moment, we are focusing on management issues and putting all our assets in the right mood," she explains.

Mme Morin-Postel was omnipresent just before Christmas when Lyonnaise announced that it had bought small stakes in three of the newly-privatised former water authorities, building up holdings in the hectic aftermath of flotation.

For the xenophobes among British journalists this was the horror story of the previous year's statutory company developments writ large (French Swallow British Water, and so on), but Lyonnaise only announced stakes in Anglian (9 per cent), Wessex (6 per cent) and Severn Trent (2.7 per cent), and claims it has not increased those holdings.

"The waters are very calm and we have friendly relations with those companies just as we always had in the past," says Mme Morin-Postel.

It emerged later that Générale des Eaux, France's biggest water supplier, had also bought stakes of below 5 per cent at around the same time – 2.3 per cent in North West, and 4.04 per cent in Severn Trent.

Any SAUR shareholdings in the 10 large water and sewerage companies remain hidden beneath the new 3 per cent disclosure level: the smallest of the three French companies has taken a slightly different tack, announcing joint ventures with Southern Water and Welsh Water to bid for local authority waste disposal contracts in their regions.

In the calm which followed the flurry of activity last year, people have begun to notice that all three French companies have other fish to fry in the UK. Jean-Claude Banon, who heads General Utilities, Générale's water subsidiary in the UK, says the bulk of the French group's investment in Britain is outside the water industry. The company has a stake in TVS Entertainment, the ITV franchise-holder in the south of England, and became the owner of the UK's largest quoted private medical company, AMI Healthcare, in March. It is also involved in tendering for cable television contracts and has a majority stake in the construction company Norwest Holst.

Lyonnaise, meanwhile, was behind a big restructuring in the UK funeral services business last year when two of the three quoted funeral directors – Hodgson Holdings and Kenyon Securities – merged. The French group's funeral services subsidiary was Kenyon's largest shareholder and now holds a significant stake in the merged company, PFG Hodgson Kenyon International.

French companies are used to winning contracts that can last for 25 years or more

Générale and Lyonnaise, both giants on the Paris bourse, have also been expanding in the UK waste collection and disposal market through their respective subsidiaries Cory UK – a joint venture with Wistech – and Staclean.

Not that the French companies have neglected their recent acquisitions. Générale, for example, has been embroiled in the Monopolies and Mergers Commission examination of a merger between one of its companies and two others north of London, which would leave the French supplier with a majority stake in the merged group.

But most of the statutory companies bought by the French suppliers are still run as independent units, with guidance from the parent company's UK subsidiary.

"We try to work together and enjoy the benefits of working together – for example on pricing – but we haven't tried to merge anything," says Jean-François Talbot, managing director of SAUR Water Services, whose four companies are grouped together in the south-east corner of England.

Générale has established Gusto (General Utilities Scientific and Technical Organisation) for the nine statutory companies it owns and in which it has large stakes.

"The initiative is meant to provide a forum for companies that are associated with us to exchange information of a technical nature," explains Jean-Claude Banon.

Lyonnaise is promoting a similar exchange of technical expertise, to the extent that some of its companies are carrying out trials with a French-designed membrane filtration system, while automation software was pioneered by one of its British acquisitions, Essex Water, is applied in France.

Co-operation which works to the benefit of British water companies should be enough to allay the fears of consumers, particularly if it helps reduce their water bills.

As for British companies breaking into the crowded French market, that seems less likely. At its recent preliminary results meeting, for example, Severn Trent suggested that it would pursue operating contracts overseas. But John Bellak, the group's chairman, added: "I'm not necessarily aiming to pitch against the French on their own ground for their own municipal contracts."

Those Britons who persist in viewing the French water investments as part of the old cross-channel rivalry may have to wait a while to avenge the so-called "French invasion".

Elisabeth Tacey looks at the industry's suppliers

Doubts about organisation of investment programme

A YEAR AGO, before privatisation and the questionable advertising image of the cigar-puffing duck, there were worries that the water industry's suppliers would be unable to meet the challenge of the huge investment programme planned for the newly-public companies.

A year on, the concern of the suppliers and contractors is not whether they can cope, but whether the water companies will help them cope.

The Water Services Association says the £26bn, 10-year investment programme is "the largest audited and costed such plan ever".

At this early stage, with the 10-year programme barely begun, it is difficult to tell if the water PLCs are sticking to their investment plans. The few signs, from those that have reported, is that they are.

But, though the suppliers look forward to this work bonanza, they have reservations about the way in which the programme is being organised.

The Society of British Water Industries, set up in 1986 to be a talking shop for companies to liaise with the water authorities for which they were working, says that contractors and suppliers appear to have seen little of the contract build-up, but that they expect it; the contractors are concerned about a large amount of work on the horizon.

One source close to the industry says: "The suppliers are a bit worried that there is so much work all at once . . . The PLCs are not telling us as much about their plans as they did when they were water authorities."

As Mr John Hills, representative of the British Water and Effluent Association, suggests: "If it was UK Ltd you would expect the work to be planned to smooth out peaks."

The capital spending planned by the water authorities, he says, used to be public knowledge. But at the beginning of last year, as privatisation approached, he says information "began to dry up" as the authorities had to comply with regulations in the Financial Services Act. And now, he maintains, the spending plans the public water companies can give is less detailed than before.

The basic investment figures the association has to go on are those that were printed in the privatisation prospectus last November.

It is difficult for companies to "set out their stalls and plan for work in years to come," he says.

Mr Paul Garrett of the Water Services Association thinks the problem of how the contractors cope is "a side issue". He points out that when everyone seems to be screaming for rapid change, from the European Commission – which he describes as the "motor" driving the work programme – through the consumers to the press, then the water companies cannot be blamed for trying to get the work done as fast as possible.

He adds that the Water Services Association would like to see as much work as possible going to local companies, but that there are others within the European Community that could be employed.

Mr Jim Prestridge, director of the British Water Industries Group which mainly helps companies with exports, describes the UK market as "becoming very lively", but adds: "I think our industries are getting geared up to cope." He says it is noticeable that "there have been a number of newcomers to the business".

BWEA publishes a regular survey of orders taken by its members. Mr Hills says that growth in the number of orders for water and effluent treatment plant virtually doubled, and that a similar peak occurred when the water authorities took over from local authority control in 1973.

And he is "pleased to see any mechanism that will allow the right amount of money to be spent in the sector . . . our concern over the years has been the roughly 10 per cent underspend per year."

He also points out that, though the number of BWEA members has changed little over the past few years, the group has seen a "burgeoning" in the number of subscription members.

These belong to one committee and do not have to meet the condition of the constitution which says that association members have to be "established," meaning that they must have been in existence for at least three years.

The Quality Water Group, for example, which deals with domestic water treatment, has grown from handling 14 companies to 89 in a year.

"One big change now is in WSPLCs [Water Service PLCs] taking contractors under their wing," says Mr Hills. Of his membership – about 50 – 10 per cent are now owned by PLCs.

In March, Wimpey Wessex Water was formed as an equally-owned joint venture between Wessex Water and George Wimpey, the contractor, to design, build and maintain water and sewerage projects. And in April, South West Water bought a Cornish civil engineering contractor, TJ (Brent).

Mr Prestridge cites the examples of Welsh Water, which acquired a water consultancy; Severn Trent Water, which bought *Capital Controls* of the US, a sterilisation control equipment maker; Yorkshire Water's purchase of the UK offshoot of a Dutch treatment plant manufacturer; expansion by Biwater, the market leader in effluent plant, into several hardware areas such as pipes and valves; and Thames Water's purchase of Portal Holdings, the waste treatment plant company, in its drive to purchase several water suppliers. But of the hundreds of suppliers, he says, "it hasn't made a big dent".

Mr Garrett of the WSA points out that the water companies can collaborate and take advantage of each other's strengths: for example, "Wessex Water has always been very strong in computing and computer systems."

Mr Hills is unsure which way the changes will go: towards bigger companies with a range of expertise, or towards specialisation. But he reckons there will be change as the industry shakes out over the 10-year investment programme that, the water industry hopes, will put them on track for the next century.

PLCs investment Programme, 1990-2000

Company	Area (sq km)	Pop (m)	Expenditure (£m) Mar 1990-95	Mar 1995-2000
Anglian	22,000	3.8	1,470	1,990
	*27,000	*5.4		
Northumbrian	9,400	2.6	540	345
North West	14,800	7.0	2,220	2,060
Severn Trent	18,990	6.9	2,330	1,750
	*21,650	*8.3		
Southern	4,450	2.1	830	500
	*10,450	*4.0		
South West	10,300	1.5	765	525
Thames	13,750	11.7	1,890	1,920
Welsh	20,000	2.9	890	875
Wessex	7,350	1.1	660	625
	*10,000	*2.6		
Yorkshire	13,900	4.4	1,210	1,210

*Sewerage region, where this differs markedly from water supply region

Source: Water Privatisation Prospectus

A year after privatisation, the concern of the suppliers and contractors is not whether they can cope but whether the water companies will help them cope

Pressure over quality controls eases, but . . .

Trouble is bubbling up below the surface

PRESSURE is off the water industry for a while after an unwelcome spotlight focused on the quality – or lack of it – of UK drinking water.

The European Commission, in the drive to harmonise community rules, drew up the drinking water directive, which set limits on the amount of contaminants in water. The bold headlines and scare stories came about because UK water did not meet those limits. Particularly worrying was non-compliance with limits for nitrates, lead, aluminium, organochlorines and pesticides.

The problem was exacerbated because the state had not been investing in the water industry to the tune of about "a 10 per cent underspend per year", says Mr John Hills of the British Effluent and Water Association; the Government also asked the Commission for an extra 10 years to meet the directive *after* it came into force in 1985, and for some limits, particularly pesticides, the water companies do not guarantee meeting the figures by then. Hence last summer's brouhaha.

But, points out Mr Paul Garrett of the Water Services Association, the water industry trade body, most EC countries are being taken to the European court over their flouting of the rules.

The exception is Portugal, he says, because that country has an exemption for a year to try to comply – and once that year is up, "they'll be in the club, so to speak".

Under the Water Act, the PLCs have a duty to supply "wholesome" water – that is, meeting the Water Quality Regulations, which mostly agree with the EC figures. Mr Garrett reckons that meeting most of them is a case of paying to fit proven technology.

Nitrates are mostly introduced from fertilisers and are a problem for water companies in agricultural areas. Anglian, Severn Trent, Thames and Yorkshire PLCs have asked for relaxations until work can be completed to reduce nitrate levels: this can be done by ion exchange or blending water from different sources.

The mains distribution system can introduce various metals into the water. These include lead – particularly when the water is soft – iron, manganese and aluminium. Pipes and sewers can be replaced or relined – though removal of householders' lead pipes is the responsibility of the householders, another potential bone of contention. And control of acidity of the water is used by several companies, such as Anglian, Severn Trent, Southern, South West, Welsh, Wessex and Yorkshire, to reduce solubilisation of the metals.

Aluminium content of water is also too high in some areas due to use of aluminium sulphate as a *coagulant*. Aluminium has been linked to Alzheimer's disease. Use of iron sulphate can *avoid this* problem. However, both these treatment processes do not address the true difficulty, only the results. An example of this is the use of coal tar to reline old mains – this is now leaching polyaromatics, known carcinogens, into the water, and these pipes need relining or replacing.

Pesticides, agrees Mr Garrett, are a problem, and he reckons a "more generous parameter" is needed for the whole EC: "All the technology and expenditure in the world is not going to get us there."

Granular active carbon filtration is being used by some water companies as an alternative to sand, the usual method. Sand filters out most large particles and then chlorine disinfection kills micro-organisms. Carbon is porous to small molecules such as organics, and Mr Bob Hyde of the Water Research Centre says that a project supported by the water industry to the tune of about £250,000 a year for three years is studying granular carbon to remove pesticides. "If there is a problem [with pesticide removal], the current methods of treating water are not doing it properly," he says.

A corresponding WRC project is looking at use of granular carbon with ozone as a disinfectant. The problem with chlorine is that it reacts with organic molecules to produce organochlorines – an example being chloroform, a known carcinogen. Ozone kills bacteria and avoids this by-product formation.

However, Mr Albert Coleman of the Drinking Water Inspectorate has reservations about this move. He argues that little is known about the effects of high ozone levels. He is afraid that "it looks as if we have got to go much more for ozone at a fairly high level. But it would take at least a *decade*, if not two or even three, before we could get round the whole of the country [to convert chlo*rine disinfection to ozone*]."

The Drinking Water Inspectorate was set up to monitor quality under the new privatised regime. However, it has been criticised for its small size – at 23 employees, it has just over two inspectors per water company – and limited scope – it has no laboratories to check samples taken from the water companies' supplies, and so has to rely on the companies' data. And even when change is needed, says Mr Coleman, it can take a long time for anything to be done. He maintains that the nitrate problem was pinpointed in 1971 but nitrogen fertiliser use was only restricted from 1988.

Dr Hugh Tebbutt is the co-ordinator of the safe drinking water initiative at the Science and Engineering Research Council. The *drinking* water group was formed about a year ago, and has about £400,000 to spend this year on six projects. Its existence suggests increased concern about quality of drinking water, but Dr Tebbutt points out that West Germany still spends about three and a half times as much as the UK Government on research; the Netherlands spends more than twice the amount, and even Belgium spends more.

The EC limits have been questioned. The water industry points *out that*, for example, the *limit* set for nitrate is 50 milligrams per litre, whereas the World Health Organisation's guideline – *set* after scientific analysis – is double that. Some argue that the limits were set arbitrarily, at the detection limits for some contaminants; Friends of the Earth argues that the less contamination, the better.

There is a feeling that trouble is bubbling up under the surface for the water industry; when it will spurt up into an uncontainable fountain is unclear. But the waters do not run smooth yet.

Elisabeth Tacey

Andrew Hill assesses the impact of the water regulators

Quick out of the starting stalls

Chief regulators: Lord Crickhowell (left) and Ian Byatt

WATER'S two most important regulators – Ian Byatt, director-general of water services, and Lord Crickhowell, chairman of the National Rivers Authority (NRA) – have been at their desks since the beginning of last September.

Nine months on, it is already clear that they are neither office-bound figureheads, nor bureaucrats intent on wrapping the newly-privatised industry in red tape. Both regulators have been very quick out of the starting stalls.

The NRA, charged with the sensitive task of protecting the water environment, is staffed by former water company employees. The change was made to end the poacher-gamekeeper dilemma – former water authorities having to report their own pollution misdemeanours.

As a result the NRA was able to hit the ground running. Within a month of its formal establishment it had brought a highly-publicised prosecution against Shell UK for polluting the Mersey estuary with a spillage from its oil pipeline. The eventual court fine of £1m was criticised for being too small, but it was the biggest in the UK for any pollution incident and contributed to the NRA's growing reputation as a robust new regulatory body.

Perhaps more important, the authority achieved the first successful prosecution of a privatised water company – The Gamekeeper Strikes Back – before the end of the year: Yorkshire Water Services was fined £1,000 plus costs for polluting a trout stream.

The NRA is also promising to take a hard line on excessive abstraction of water from Britain's rivers, in an attempt to pre-empt a drought this summer following the past year's below-average rainfall.

But despite public statements on issues ranging from global warming and tidal defences, to toxic algae and acid rain some pressure groups have implied the NRA does not have the political and financial clout to control the UK's 39 water companies.

In recent weeks, supporters of the NRA have also been worried by new proposals which should be published in the white paper on the environment in September. The Department of the Environment wants to turn the Inspectorate of Pollution into an independent Civil Service agency which could eventually merge with the authority. Although some of the inspectorate's functions overlap with those of the NRA, a merger – which would take place in about five years – would not be welcomed by the more specialised authority.

Privately, water industry chiefs admit they have found it more difficult to interpret Lord Crickhowell's strategy than to come to terms with Mr Byatt's more strictly defined role.

Mr Byatt's ability to stamp his personality on the job of director-general of water services has been more limited. As he repeatedly stresses, he wants the role of economic regulator to take into account the long-term nature of the water industry.

Not that anybody expected him to tamper with the Government-set price limits this early. The first official review of the so-called K factors takes place after 10 years, although Mr Byatt can carry out an interim review after five years.

"Substantial adjustments to investment programmes between periodic review could not only upset consumers' expectations, they could also be disruptive," he said in his first annual report, published last month.

Instead, the director-general has spent his first nine months in office contacting the 39 businesses and setting up the 10 regional customer service committees – which, in the words of his first annual report, will be "the local champions of the consumer". In addition, he has opened a public debate about alternative methods of charging for water – such as metering, or a flat licence fee – and hopes to produce a consultation paper in the autumn.

Mr Byatt has also been at the centre of the Monopolies and Mergers Commission's important investigation into a proposed merger of three small water companies north of London.

The MMC became an *ad hoc* regulator of the water industry with last year's Water Act, which obliges the commission to investigate takeovers of water companies with assets worth more than £30m.

Its report on the proposed merger of Colne Valley, Lee Valley and Rickmansworth water companies was the first under these rules. The MMC also had to grapple with the involvement of French water suppliers, one of whom – Compagnie Générale des Eaux – would have had a controlling stake in the merged company, Three Valleys Water.

For these reasons, the investigation was widely regarded as a test case for merger policy in the newly-privatised industry. Although the bid was proposed in July 1989, the report was not published until the end of April this year, further emphasising the sensitivity and complexity of the issues being examined.

The commission ruled that the merger should not go ahead, apparently ruling out any attempt by existing water suppliers to expand through acquisition, while leaving open the possibility of an outside bidder launching a successful bid. But it also suggested the proposals would be approved if the three companies promised certain cost savings on top of those already suggested by them in the course of the investigation.

That should have been that. But unusually, the trade secretary Nicholas Ridley (who introduced the original water takeover rules when he was Environment Secretary), questioned the MMC's qualified conclusion: he wanted to extract even more benefits from the three companies before he would allow the merger and asked the director-general of water services to discuss further remedies with them.

Mr Byatt had argued that a 6 per cent drop in water charges (the estimated effect of the merger over 10 years) did not quite outweigh the reduction in his ability to make comparisons between independent water suppliers – an important element of the philosophy of "yardstick" competition in the monopoly industry. A merger between neighbouring companies, though it reduced charges, would make the task of setting charges and simulating competition in the industry more difficult.

Critics argue that such conclusions reduced the overall threat of takeover, previously considered an important discipline of the private sector, and even risked politicising the director-general's role.

Mr Byatt should complete his discussions with the Three Valleys companies in the next month or so.

The debate on the most efficient and fairest way to regulate the water industry is far from over. It is bound to have been revived by last week's MMC report on large stakes held by French and British investors in two water companies in the south-east of England.

Richard Evans examines future charging policies

A dilemma over price-fixing

THERE is considerable uncertainty in the water industry about the way in which customers will pay for their water in the future, and Mr Ian Byatt, the industry's economic regulator, has called for an urgent debate on the alternative methods of charging.

The problem stems indirectly from the Government's introduction on April 1 of the community charge, or poll tax, in England and Wales in place of domestic rates. Water charges have traditionally been based on domestic rateable values.

Water and sewerage bills will for the time being continue to be calculated on the otherwise redundant rates valuations, but a permanent solution has to be found by 2000, when the domestic rating system is due to disappear.

This relatively close target date has begun to concentrate the minds of industry leaders and technical experts wonderfully, but there remains a range of conflicting views which will need to be resolved soon so that a new charging system can be put in place.

Charging for water services based on rates was never regarded as particularly fair or logical, but because water charges have traditionally been low and represent a small proportion of average outgoings, protests have been muted. It was simply not worth creating much of a fuss.

Nevertheless, the system did bear a crude relationship to a household's ability to pay, as highly-rated properties which as a consequence paid more in water charges, were generally lived in by the better-off.

But what to put in place of rates is a question that remains open, and there is unlikely to be a universal solution covering the whole country.

Metering is the most obvious alternative. Its fairness, being based on what people use, is not in doubt, but there are big problems over capital and running costs as well as over public and political acceptability. Until recently, metering was regarded as the most logical solution but difficult if not impossible to achieve on cost grounds.

However, in 1985 an industry study led by Mr Roy Watts, chairman of Thames Water, came to a more pragmatic conclusion. It found that metering might be justified economically if its high installation costs could be offset by reductions in demand and by eventual savings in revenue expenditure and capital investment.

The committee recognised that reliable data was virtually non-existent, and recommended that a series of trials of domestic metering should be conducted to find out more. The Watts report lay on the shelf for over a year and might have continued to gather dust had it not been for the Government's announcement that the use of the rating system for collating water charges was to be phased out.

This galvanised the water industry and the Environment Department into action, and the trials, consisting of one large area of 53,000 households covering the whole of the Isle of Wight and 11 smaller ones of around 1,000 properties each, are now well under way.

According to Mr David Gadbury, director of planning at Southern Water and chairman of the group monitoring the trials, the reaction of customers to metering or any other charging system will be crucial. So far, although there has been some hostility in the Isle of Wight, the trials have not produced the adverse customer reaction that was widely forecast.

An interim report on the trials published last week thought it would be feasible to meter 96 per cent of households, but that costs and installation problems would be considerable. The average cost would be around £165 if the meters were placed indoors and £200 if outside.

It is already clear that the costs of changing to a new charging system can be treated by the companies as "cost pass through", which means that the customer will have to foot the bill, but it will be up to the regulator to decide exactly what charges can be passed on.

Other alternatives therefore have their adherents, but each has its drawbacks.

The flat rate licence fee, or standard charge, has already been chosen by Welsh Water in preference to metering, largely on practical grounds. The company argues that given its simplicity, certainty, and cheapness of billing and collection, a licence fee is the most sensible solution for its own circumstances.

But although cheap to operate, a flat rate licence fee bears even less relation to consumption than the old rateable value system. The idea of every household paying the same charge may be very simple, but whether customers would perceive it as being fair is another matter.

Another option would be a charge related to the number of residents in a property. This would give a better link to demand, but it would be expensive to collect, and given the difficulties of the poll tax, industry leaders are unlikely to be keen on the idea.

Charging for services based on rates was never regarded as particularly logical

Other proposals, including a count of the number of bedrooms in a house, or the number of taps or appliances, have even more obvious difficulties attached to them.

Mr Gadbury believes sooner or later the industry will switch to a meter system. "It seems illogical to charge for a scarce and increasingly costly resource in such a way that there is no incentive for the customer to use it more economically.

"Charging would be a traumatic technical and financial challenge, but I believe that the trials will demonstrate that the difficulties are not insuperable," he says.

It could be that the areas of the country where water can be in short supply – broadly the south and east – will opt more readily for the metering alternative than will areas with plentiful supplies, as the possible savings from metering would be less relevant.

The issue should become clearer in the autumn when Mr Byatt publishes a consultation paper. He has already indicated his own leanings when in the first annual report of Ofwat last month, he stressed that the existing pattern of charging was in great need of rationalisation.

He argued that any new system must give customers sensible price messages to enable them to relate their consumption patterns to the rising cost of collecting, treating and transporting water. It sounded like a warning to companies to muster good arguments if they are preparing to oppose metering.

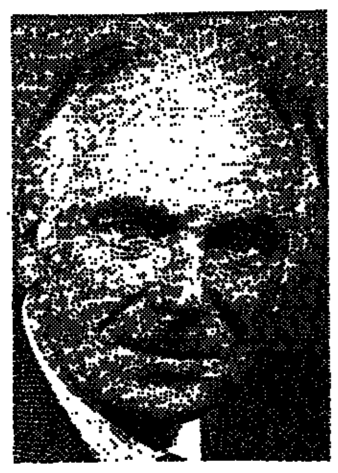
Water chief talks to **Richard Evans**

A lot of catching up to do

THE City is going to judge the recently privatised water companies primarily on their ability to meet their huge capital programmes, says Mr Bernard Henderson, chairman of the Water Services Association.

With a 10-year spending programme amounting to well over £24bn, it is clearly far too early to make a meaningful judgement, "but things seem to be shaping up well", is his initial assessment.

Mr Henderson has been chairman of Anglian Water since 1981, making him the longest serving of the 10 former water authority chairmen. On January 1, he took over the mantle of standard bearer of the industry, as chairman of the WSC, from Sir Gordon Jones, chairman of Yorkshire Water, who helped steer the industry through the privatisation rapids at the end of last year.



Henderson: urges patience

The new national chairman urges patience to allow time for the industry to implement the huge spending programme to bring water quality, rivers and beaches up to required European Community standards.

"Everyone must recognise what a cruel aftermath we have been left after decades of neglect, when governments were unwilling to put the necessary capital into the industry to maintain the infrastructure... there is a lot of catching up to do."

The industry is in the throes of planning the hundreds of new schemes that will be necessary over the coming years to reach the required quality standards, and this explains the number of link-ups between water companies and consulting engineers.

The great surge of capital programmes should come between 1992 and 1994, and questions have been raised about the ability of the construction industry to meet such heavy requirements over a short timescale.

"We think the industry will be able to cope because the programme will not be one huge item like the Channel Tunnel, but a series of small to medium contracts that will be much more manageable," says Mr Henderson.

One big concern for the industry is the anxiety already expressed by Mr Ian Byatt, director-general of Water Services, that the proposed increase in standards would inevitably mean much higher costs and charges, and these would ultimately have to be paid for by the customer.

"We are concerned that everybody wants higher water quality standards, cleaner rivers and better beaches, but they are then not necessarily so keen on paying for them."

Similarly, Mr Henderson is concerned that some critics of the industry pointed to what they regarded as excessive profits but failed to realise that companies needed to make satisfactory profits to attract future investment.

Mr Henderson is an advocate of metering as the best way of charging for water in the future, on the grounds that paying for what is used is the fairest method, but he accepts that a significant hurdle will be the cost of installing and reading the meters, put at around £150 a household.

As with the rest of the industry, Anglian is awaiting the outcome of the series of country-wide metering trials before reaching a decision.

More specific to Anglian is the problem of nitrates, which filter into the soil from the intensive use of fertilisers in the region.

The company is having to spend £100m over the next four years to reduce the nitrate level in 55 water sources.

Mr Henderson is critical of the attitude of the Minister of Agriculture, and calls for much more positive action.

He would like to see nitrates much more strictly controlled in borehole areas.

More generally, he hints at criticism within the industry at the level of some of the scientific advice available to the Environment Department, and suggests that experts from within the industry or from the academic world should be brought in at an earlier stage in dealings with the European Commission.

Diversification from core services, much advocated by some water authority leaders before privatisation, fails to fire Mr Henderson with obvious enthusiasm.

"The rest of the industry now largely accepts Anglian's view that it is absolutely essential to prove credibility by showing we can run the water business thoroughly efficiently before putting too much emphasis on diversification," he says.

The top priority remained to get on with the business of providing water services to customers in the largest growth region of the UK.

Mr Henderson is equally sanguine about another potential problem facing the industry – the possibility of the Labour Party winning the next election and advocating the return of the industry to the public sector.

"We have to remember that a very large number of our employees and customers are shareholders, and their interests cannot be ignored... we also now have, for the first time ever, a formula for getting the money to improve the infrastructure up to the highest standards."

His view is that an incoming administration would have to think very carefully before returning the industry to the public sector, so that capital programmes would again have to take their chance with spending on social services, education, health and other priorities.

The profile of the industry is not as high at present as it has been in the recent past, he says with some relief.

He forecasts that attention will now focus more on individual companies rather than the industry as a whole, but that there will still be a regular upsurge of interest over matters of national importance.

The environmental issues analysed by **Richard Evans**

Success for the clean lobby

THERE is no doubt that the pressures exerted in recent years by the environment lobby have been spectacularly successful, and the water industry has been affected more than most.

Alarming stories have appeared frequently in the media concerning the high levels of nitrates, pesticides, iron, aluminium and lead in some drinking water, the poor condition of some rivers and the even worse state of some beaches. All have combined to raise substantial question marks over an industry that used to be a byword for quiet, reliable service.

Billions of pounds have been added to the industry's capital programme over the next decade to ensure that the high expectations raised in the customer are met. The scare stories, some justified, others not, have had their effect, but the truth is that standards in the UK industry are generally higher than in the majority of other EC countries.

The UK's primary problem has been that the industry has suffered a chronic lack of capital investment, first under Labour in the late 1970s and then under the Conservatives until the mid-1980s. There has been a lot of catching up to do.

According to Mr Michael Carney, secretary of the Water Services Association which represents the former authorities, the immediate results of privatisation, despite its widespread unpopularity, have been beneficial for water standards and water quality generally.

Net gain: scare stories have had their effect

Glyn Genin

This, he argues, is because of the highlighting of weaknesses that needed correction, and the recognition of the significant increase in investment required so that £24bn can be spent on capital improvements over the next decade, compared with £10bn over the past 10 years.

In addition, a powerful new regulatory framework has been set up, with a director-general responsible for regulating charges and service standards, and a new drinking water inspectorate to assess water quality.

The capital spending programmes are designed to bring drinking water quality, rivers and beaches up to the EC's required standards, and to ensure that sewage, or waste water as it is now known in Community jargon, is disposed of in an environmentally satisfactory way.

This is straightforward enough, except for two elements – the high cost, and the fact that the goalposts are liable to change as expectations increase and as methods of detecting pollution become more sophisticated.

To allow for this, the companies have had written into their charging formulae the ability to charge extra for any additional capital spending requirements not yet known. This means that water charges, set to rise by an average of 5 per cent above the rate of inflation each year for the next 10 years, could in fact increase by much more for environmental reasons.

With drinking water standards, the EC has been putting maximum pressure on the UK to bring full compliance forward. The regulations should have come into force in 1985, but the UK Government, after being threatened with more legal action, has now agreed to compliance by 1993.

The two biggest difficulties have been the presence of lead in pipes in parts of Scotland, and a surfeit of nitrates in parts of England, particularly East Anglia and Staffordshire. This is caused by intensive farming with fertilisers that have slowly leached into underground boreholes.

Pressure has moved recently to the waste water and sewage disposal side of the industry, and the Government announced earlier this year a series of concessions to counter the country's reputation as the dirty man of Europe.

The discharge through pipelines of raw sewage into the sea is to be phased out as soon as practicable. The extra cost of stopping disposal of sludge at sea and adding primary treatment to long sea outfalls is put by the industry at £2.5bn, a good deal higher than the Government's estimate of £1.8bn.

The Water Services Association argues that the ending of the piping of raw sewage into the sea would necessitate the building of large sewage treatment plants on coastal sites, which would not be justified on environmental grounds.

Nevertheless, the primary treatment of sewage before it is deposited in the sea via long sea outfalls is likely to benefit some of Britain's 440 beaches.

A record 29 British beaches won the coveted Blue Flag award this year for achieving the high EC standards for bathing waters, compared with 21 in 1989, but 34 of the 63 entries failed to make the grade, and there is clearly a great deal more work to be done before the majority reach the highest standards.

North West Water, one of the companies most affected by need to clean up beaches, estimates that the EC waste water directive will cost it a further £100m on top of the £200m it has already committed to cleaning up bathing waters throughout the region over the next five years.

Mr Chris Patten, Environment Secretary, has said the Government will spend £3bn on a big clean-up of coastal sewage works, but the EC claims Britain needs to spend £7bn to do the job properly.

This and similar issues is leading to some concern among water industry chiefs about the costs to the consumer of various environmental initiatives the Government intends to introduce.

Mr Patten is also under growing pressure from environmental groups and from Lord Crickhowell, chairman of the National Rivers Authority, the industry's environmental regulator, to introduce some form of secondary sewage treatment at all inland sewage works.

However, Mr Ian Byatt, director-general of the Office of Water Services (Ofwat), the economic regulator, argues that since it will be the consumer that will ultimately have to pay for all the improvements, it is only right that environmental decisions should be adequately costed before they are taken up.

Industry leaders are worried about the prospect of a backlash from their less well-off customers over steep rises in water charges that produce little apparent improvement. This could become a real danger in a few years' time, but for the moment the pressures for higher quality standards look set to continue.